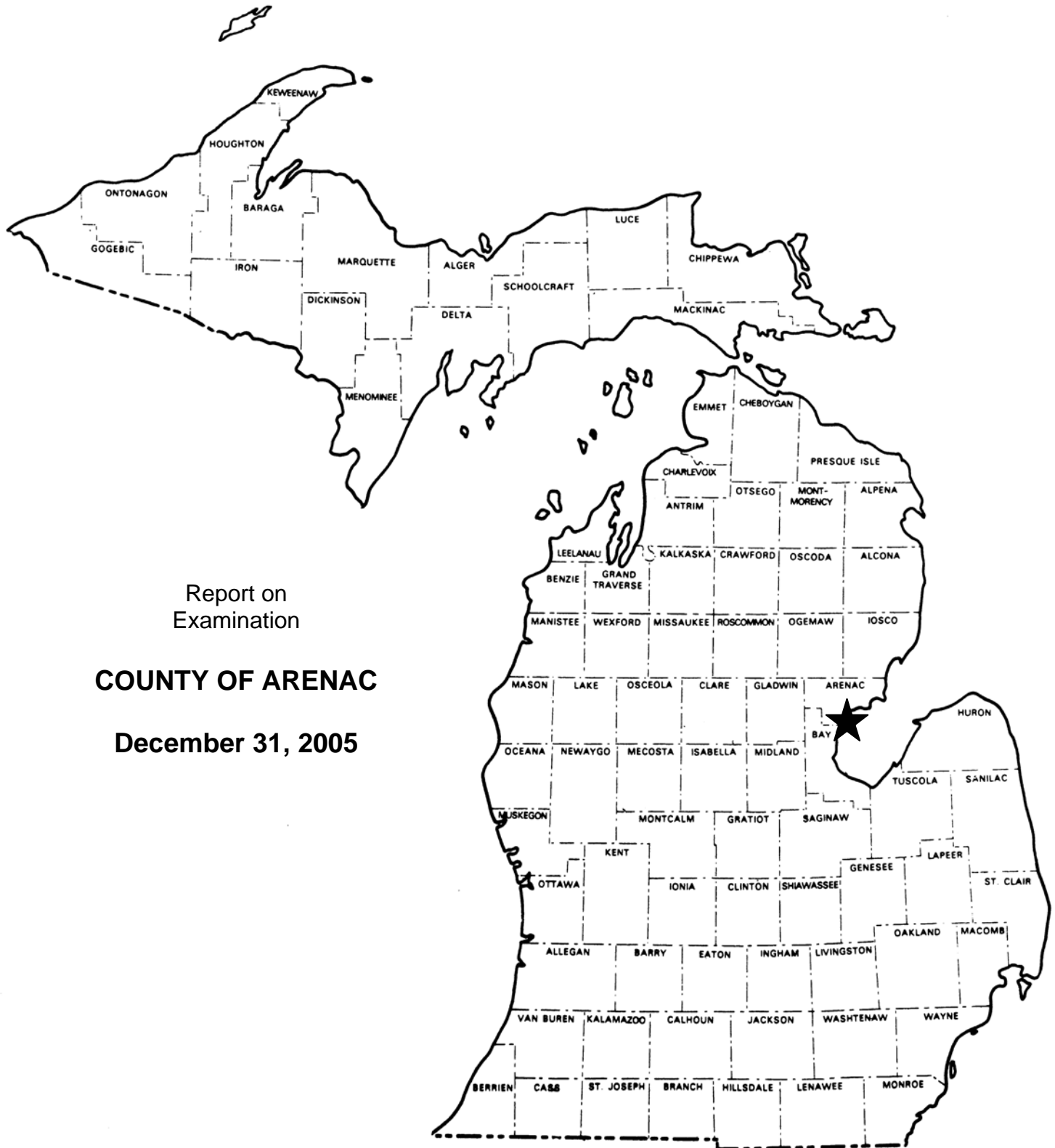


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



**COUNTY OF ARENAC**  
**BOARD OF COMMISSIONERS**

Virginia Zygiel  
Chairperson

Roma J. Dijak

Kenneth Kernstock

Pauline Hall

Amy Lynch

**COURT JUDGES**

William Miles  
Circuit Judge

Ronald M. Bergeron  
Circuit Judge

Jack W. Scully  
Probate Judge

Allen C. Yenior  
District Judge

**OTHER ELECTED OFFICIALS**

Dennis Stawowy  
Treasurer

Ricky R. Rockwell  
Clerk

Rosella Smith  
Register of Deeds

Donald Prueter  
Drain Commissioner

Ronald L. Bouldin  
Sheriff

Curtis G. Broughton  
Prosecuting Attorney

**COUNTY POPULATION--2000**  
17,269

**STATE EQUALIZED VALUATION--2005**  
\$716,159,205



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

June 8, 2006

County of Arenac  
Board of County Commissioners  
120 North Grove Street  
Standish, Michigan 48658

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arenac County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the county's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Arenac County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Arenac County Road Commission (component unit--governmental fund type) which statements reflect total assets of \$6,035,764 as of December 31, 2005, and total revenues of \$4,300,878. These financial statements were audited by other auditors. Our opinion on these financial statements, insofar as it relates to the amounts included for the Arenac County Road Commission, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Arenac, as of December 31, 2005, and the respective changes in financial position and cash

flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 8, 2006, on our consideration of the County of Arenac's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the basic financial statements of Arenac County, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The information on the schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

The Management's Discussion and Analysis on pages 1 through 9 and the Budgetary Comparisons for Major Funds in Exhibits K through P are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Arenac's basic financial statements. The accompanying supplemental information in Exhibits Q through AB is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

## COUNTY OF ARENAC

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County, as a whole, and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

#### The County as a Whole

The County's net assets for the governmental funds increased \$816,328 from a year ago for the governmental activities. The County's net assets for the business-type activities decreased \$457,786 from a year ago. In a condensed format, the tables below show a comparison of the net assets as of the current year to the prior year.

	Governmental Activities 2004	Governmental Activities 2005	Difference	Percent
Current and Other Assets	\$ 5,781,383	\$ 5,936,627	\$ 155,244	3%
Capital Assets	3,709,433	3,793,137	83,704	2%
Total Assets	9,490,816	9,729,764	238,948	3%
Long Term Liabilities Outstanding	864,453	782,771	(81,682)	-9%
Other Liabilities	3,005,429	2,509,731	(495,698)	-16%
Total Liabilities	3,869,882	3,292,502	(577,380)	-15%
Net Assets				
Invested in Capital Assets--Net of Related Debt	3,010,056	3,181,748	171,692	6%
Restricted	2,081,824	2,182,923	101,099	5%
Unrestricted	529,054	1,072,591	543,537	103%
Total Net Assets	\$ 5,620,934	\$ 6,437,262	\$ 816,328	15%

A portion of the County's net assets in the amount of \$3,181,748 reflects its investments in capital assets (i.e., land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## COUNTY OF ARENAC

### MANAGEMENT'S DISCUSSION AND ANALYSIS

An additional portion of the County's net assets, \$2,182,923, represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$1,072,591 represents "*unrestricted net assets*" that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current calendar year, the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government, as a whole, as well as for its separate governmental and business-type activities as explained above.

	Business-Type Activities 2004	Business-Type Activities 2005	Difference	Percent
Other Assets	\$ 3,001,764	\$ 2,540,107	\$ (461,657)	-15%
Total Assets	3,001,764	2,540,107	(461,657)	-15%
Other Liabilities	3,871	-	(3,871)	-100%
Total Liabilities	3,871	-	(3,871)	-100%
Net Assets				
Unrestricted	2,997,893	2,540,107	(457,786)	-15%
Total Net Assets	\$ 2,997,893	\$ 2,540,107	\$ (457,786)	-15%

# COUNTY OF ARENAC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets for the years ended December 31, 2004 and December 31, 2005:

	Governmental Activities <u>2004</u>	Governmental Activities <u>2005</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 1,334,251	\$ 1,331,597	\$ (2,654)	0%
Operating Grants and Contributions	1,474,537	1,774,303	299,766	20%
Capital Grants and Contributions	155,098	78,052	(77,046)	-50%
General Revenues				
Property Taxes	4,068,633	4,175,251	106,618	3%
State-Shared Revenues	219,822		(219,822)	-100%
Unrestricted Investment Earnings	20,857	39,305	18,448	88%
Rentals	7,500	6,000	(1,500)	-20%
Other Revenues	5,630	23,310	17,680	314%
Total Revenues	<u>7,286,328</u>	<u>7,427,818</u>	<u>141,490</u>	<u>2%</u>
Program Expenses				
General Government	2,187,148	2,321,421	134,273	6%
Public Safety	2,083,865	2,297,806	213,941	10%
Public Works	10,828	23,417	12,589	116%
Health and Welfare	1,090,850	1,081,645	(9,205)	-1%
Community and Economic Development	255,771	291,788	36,017	14%
Recreation and Culture	66,675	91,120	24,445	37%
Other	956,994	996,756	39,762	4%
Interest on Long-Term Debt	35,351	31,907	(3,444)	-10%
Total Expenses	<u>6,687,482</u>	<u>7,135,860</u>	<u>448,378</u>	<u>7%</u>
Increase (Decrease) in Net Assets Before Transfers	598,846	291,958	(306,888)	-51%
Transfers	<u>449,123</u>	<u>524,370</u>	<u>75,247</u>	<u>17%</u>
Change in Net Assets	<u>\$ 1,047,969</u>	<u>\$ 816,328</u>	<u>\$ (231,641)</u>	<u>-22%</u>

# COUNTY OF ARENAC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Public Act 357 of 2004 provided a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy and, additionally, required the establishment of a restricted fund to be known as the Revenue Sharing Reserve Fund. Beginning in 2004, the property tax revenue of the governmental activities increased due to the creation of the Revenue Sharing Reserve Fund in 2004, which shifted the General Fund County Property Tax Collections from December to July over a three year period. During that time period, the County will levy 33% more each calendar year and set aside that amount into the Revenue Sharing Reserve Fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment.

The public safety expenditures increased by \$213,941 due to receiving several domestic preparedness grants and increased sheriff department, jail and 911 Service operation costs.

	Business-Type Activities <u>2004</u>	Business-Type Activities <u>2005</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 350,434	\$ 233,578	\$ (116,856)	-33%
General Revenues				
Unrestricted Investment Earnings	<u>24,269</u>	<u>41,251</u>	<u>16,982</u>	<u>70%</u>
Total Revenues	<u>374,703</u>	<u>274,829</u>	<u>(99,874)</u>	<u>-27%</u>
Program Expenses				
Delinquent Tax Fund--Other	-	1,500	1,500	100%
Tax Foreclosure Program	-	23,686	23,686	100%
Public Safety	<u>20,763</u>	<u>3,219</u>	<u>(17,544)</u>	<u>-84%</u>
Total Expenses	<u>20,763</u>	<u>28,405</u>	<u>7,642</u>	<u>37%</u>
Increase in Net Assets Before Transfers	353,940	246,424	(107,516)	-30%
Transfers	<u>(464,123)</u>	<u>(539,370)</u>	<u>(75,247)</u>	<u>16%</u>
Increase (Decrease) in Net Assets	<u><u>\$ (110,183)</u></u>	<u><u>\$ (292,946)</u></u>	<u><u>\$ (182,763)</u></u>	<u><u>166%</u></u>

Charges for services decreased because interest on delinquent taxes decreased by \$120,281 from 2004 to 2005 because delinquent tax collections decreased from 2004 to 2005. The Tax Foreclosure Program was new for 2005. In addition to the \$292,946 decrease in net assets presented in the above table, net assets of the business-type activities decreased \$164,840 because of a restatement to the Delinquent Tax Revolving Fund's net assets to write-off uncollectible delinquent property taxes receivable for the years 1989 through 1996.



# COUNTY OF ARENAC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Governmental Activities

As the County completed calendar year 2005, its governmental funds reported combined fund balances of \$2,330,802, an increase of \$650,613. The net changes are summarized below:

	Governmental Activities 2004	Governmental Activities 2005	Amount Difference 2005	Percentage Difference 2005
<b>Revenues</b>				
Taxes	\$ 4,068,633	\$ 4,175,251	\$ 106,618	3%
Licenses and Permits	172,720	151,463	(21,257)	-12%
Federal Grants	503,657	567,744	64,087	13%
State Grants	1,124,942	934,744	(190,198)	-17%
Charges for Services	971,904	1,036,585	64,681	7%
Contributions From Local Units	72,332	80,470	8,138	11%
Fines and Forfeits	23,191	24,995	1,804	8%
Interest and Rentals	28,357	45,550	17,193	61%
Other Revenue	206,137	410,687	204,550	99%
<b>Total Revenues</b>	<b>7,171,873</b>	<b>7,427,489</b>	<b>255,616</b>	<b>4%</b>
<b>Expenses</b>				
General Government	2,135,087	2,263,125	128,038	6%
Public Safety	2,031,875	2,233,437	201,562	10%
Public Works	10,828	23,417	12,589	116%
Health and Welfare	1,090,850	1,081,645	(9,205)	-1%
Community and Economic Development	255,771	291,788	36,017	14%
Recreation and Cultural	43,933	54,045	10,112	23%
Other	956,994	996,756	39,762	4%
Capital Outlay	388,154	237,138	(151,016)	-39%
Debt Service				
Principal	85,874	87,988	2,114	2%
Interest and Fiscal Fees	35,351	31,907	(3,444)	-10%
<b>Total Expenditures</b>	<b>7,034,717</b>	<b>7,301,246</b>	<b>266,529</b>	<b>4%</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>137,156</b>	<b>126,243</b>	<b>(10,913)</b>	<b>-8%</b>
<b>Other Financing Sources (Uses)</b>				
Installment Purchase Proceeds	12,690		(12,690)	-100%
Interfund Transfers In (Out)				
Primary Government	776,953	854,178	77,225	10%
Primary Government	(312,830)	(314,808)	(1,978)	1%
Component Unit	(15,000)	(15,000)	-	0%
<b>Total Other Financing Sources (Uses)</b>	<b>461,813</b>	<b>524,370</b>	<b>62,557</b>	<b>14%</b>
<b>Beginning Fund Balance</b>	<b>1,081,220</b>	<b>1,680,189</b>	<b>598,969</b>	<b>55%</b>
<b>Ending Fund Balance</b>	<b>\$ 1,680,189</b>	<b>\$ 2,330,802</b>	<b>\$ 650,613</b>	<b>39%</b>

**COUNTY OF ARENAC**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The County's Funds

The financial statements for the County's major funds are detailed in Exhibits C and D, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The County's major funds for 2005 include the General Fund, Ambulance Fund, Friend of the Court Fund, Remonumentation Fund, 911 Service Fund, Revenue Sharing Reserve Fund, and the Delinquent Tax Revolving Fund.

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement, or board policy, all County revenues and expenditures are recorded in the General Fund.

The most significant services paid by the County's governmental funds are general government and public safety, which incurred expenses of \$2,263,125 and \$2,233,437, respectively, during 2005.

The County's total governmental revenues increased by approximately 4%. Most of the increase was in taxes because of an increase in taxable value, and in other revenue because of circuit court litigation reimbursements from other counties.

Expenses increased by approximately 4%, mainly due to increased expenditures in general government and public safety.

# COUNTY OF ARENAC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Business-Type Activities

	Business-Type Activities <u>2004</u>	Business-Type Activities <u>2005</u>	Amount Difference <u>2005</u>	Percentage Difference <u>2005</u>
Operating Revenues				
Interest and Penalties on Taxes	\$ 315,701	\$ 182,635	\$ (133,066)	-42%
Charges for Services	20,934	44,618	23,684	113%
Other	13,799	6,325	(7,474)	-54%
Total Operating Revenues	<u>350,434</u>	<u>233,578</u>	<u>(116,856)</u>	<u>-33%</u>
Operating Expenses				
Title Search Fees		19,951	19,951	100%
Supplies and Materials	20,763	3,219	(17,544)	-84%
Other		5,235	5,235	100%
Total Operating Expenses	<u>20,763</u>	<u>28,405</u>	<u>7,642</u>	<u>37%</u>
Net Income (Loss) From Operations	<u>329,671</u>	<u>205,173</u>	<u>(124,498)</u>	<u>-38%</u>
Nonoperating Revenue (Expenses)				
Interest Income	<u>24,269</u>	<u>41,251</u>	<u>16,982</u>	<u>70%</u>
Total Nonoperating Revenues (Expenses)	<u>24,269</u>	<u>41,251</u>	<u>16,982</u>	<u>70%</u>
Net Income (Loss) Before Operating Transfers	353,940	246,424	(107,516)	-30%
Transfers In--Primary Government		20,109	20,109	100%
Transfers (Out)--Primary Government	<u>(464,123)</u>	<u>(559,479)</u>	<u>(95,356)</u>	<u>21%</u>
Net Income (Loss)	(110,183)	(292,946)	(182,763)	166%
Beginning Net Assets	3,108,076	2,997,893	(110,183)	-4%
Restatement to Beginning Net Assets	<u>-</u>	<u>(164,840)</u>	<u>(164,840)</u>	<u>-100%</u>
Ending Net Assets	<u>\$ 2,997,893</u>	<u>\$ 2,540,107</u>	<u>\$ (457,786)</u>	<u>-15%</u>

## COUNTY OF ARENAC

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's business-type activities consist of the Jail Commissary Fund operating on sales of amenities to inmates, the Tax Foreclosure Fund which operates on Charges for Services revenue, and the Delinquent Tax Revolving Fund which represents collection of delinquent taxes from various years. Revenue from a grant for inmate identification was received during 2004. Most of the revenue decrease, however, is a result of slower payment of delinquent taxes. Delinquent Tax Revolving Fund Transfers Out increased by \$95,356 from the prior year. The Delinquent Tax Revolving Fund net assets decreased by \$164,840 because of a restatement to beginning net assets in 2005 because management determined that delinquent tax balances for the tax years 1989 through 1996 were uncollectible. The County realized a 15% decrease in the net assets of its business-type activities for 2005.

#### **General Fund Budgetary Highlights**

Over the course of the year, the County Board amended the budget to take into account events during the year. The County's General Fund revenue budget was increased by \$397,921 (9% above the original budget) during calendar year 2005. Actual General Fund revenue and other financing sources totaled \$4,861,906, which was \$47,356 higher than the final amended budget. The largest variances were increases in anticipated State grants and interest earned.

The County's expenditure budget was increased by \$394,022 (9% over the original budget) during calendar year 2005. Actual General Fund expenditures and other financing sources totaled \$4,745,636, which was \$65,015 below the final amended budget. The largest variances were decreases in anticipated general government and other expenditures.

#### **Capital Asset and Debt Administration**

At the end of 2005, the County had \$3,793,137 invested in a broad range of capital assets, including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment. Major additions to the capital assets this year included improvements to the Augres Park buildings and animal shelter, office equipment and a vehicle. These additions totaled \$237,138.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current calendar year, the County had total debt outstanding of \$782,771 which includes vested employee benefits of \$171,382.

**COUNTY OF ARENAC**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Economic Factors and Next Year's Budgets and Rates**

The County has considered the following factor in preparing the 2006 calendar year budget:

State Shared Revenue--In years prior to 2005, this represented Arenac County's share of the State's sales tax. In late 2004, the State adopted a tax proposal which shifts County property tax collections from December to July. This proposal allowed the State to actually not make any revenue sharing payments to counties. This became law with the passage of Public Act 357 of 2004, which was effective September 30, 2004. In December 2004, Arenac County set up a special revenue fund, the Revenue Sharing Reserve Fund, in accordance with Department of Treasury Letter Number 2004-7, dated December 7, 2004, Property Tax Levy-County Tax Collections-Revenue Sharing Reserve Fund, and is collecting the equivalent of one additional year of property taxes over the next three years, beginning in December 2004, and putting these funds into this reserve fund. We will then draw an amount equivalent to our revenue sharing payments each year until this fund is exhausted. The State has promised to restart revenue sharing payments at that time. Arenac County believes this time frame to be approximately six years.

**Contacting the County's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Arenac County Board of Commissioners at 120 North Grove Street, Standish, MI 48658.

**ARENAC COUNTY**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**December 31, 2005**

**EXHIBIT A**

	<b>PRIMARY GOVERNMENT</b>			
	Governmental Activities	Business-Type Activities	Total	Component Units
<b><u>ASSETS</u></b>				
Current Assets				
Cash and Cash Equivalents	\$ 812,547	\$ 1,200,234	\$ 2,012,781	\$ 694,137
Investments	559,028	705,449	1,264,477	206,446
Receivables (Net)				
Taxes--Current Levy	2,983,525		2,983,525	
Taxes--Delinquent		610,139	610,139	
Accounts	38,836		38,836	513,164
Interest			-	252
Notes	1,096,094		1,096,094	
Due From Local Units of Government	12,346	25,885	38,231	
Due From Other Counties	43,473		43,473	
Due From State	341,482		341,482	
Due From Federal	696		696	
Internal Balances	1,600	(1,600)	-	
Inventories			-	222,921
Prepaid Expenses			-	23,439
Total Current Assets	5,889,627	2,540,107	8,429,734	1,660,359
Noncurrent Assets				
Special Assessments Receivables				
Due Within One Year			-	141,567
Due in More Than One Year			-	203,327
Due From Local Units of Governments				
Due Within One Year			-	17,000
Due in More Than One Year			-	320,000
Capital Assets--Net of Accumulated Depreciation	3,793,137		3,793,137	5,405,274
Long-Term Advances to				
Other Funds--Component Units	47,000		47,000	
Total Assets	9,729,764	2,540,107	12,269,871	7,747,527
<b><u>LIABILITIES</u></b>				
Current Liabilities				
Accounts Payable	179,513		179,513	269,220
Due to State	18,952		18,952	
Accrued Liabilities	51,075		51,075	22,601
Noncurrent Liabilities				
Advances From State			-	160,075
Long-Term Advances From				
Other Funds--Primary Government			-	47,000
Deferred Revenue	2,260,191		2,260,191	30,252
Bonds Payable--Due Within One Year	35,000		35,000	17,000
Bonds Payable--Due in More Than One year	515,000		515,000	320,000
Installment Loans Payable--Due Within One Year	56,138		56,138	
Installment Loans Payable--Due in More Than One Year	5,251		5,251	
Notes Payable--Due Within One Year			-	30,000
Notes Payable--Due in More Than One Year			-	180,000
Vested Employee Benefits Payable--Due Within One Year	17,138		17,138	4,281
Vested Employee Benefits Payable--Due in More Than One Year	154,244		154,244	38,531
Total Liabilities	3,292,502	-	3,292,502	1,118,960
<b><u>NET ASSETS</u></b>				
Investment in Capital Assets--Net of Related Debt	3,181,748		3,181,748	5,195,274
Restricted for				
Ambulance Services	281,764		281,764	
Friend of the Court Grants	22,568		22,568	
Remonumentation Program	16,379		16,379	
911 Services	462,631		462,631	
Capital Projects	5,298		5,298	568,197
Non-Major Special Revenue Programs	1,394,283		1,394,283	
County Roads			-	840,424
Economic Development			-	23,690
Brownfield Redevelopment Authority			-	982
Unrestricted	1,072,591	2,540,107	3,612,698	
Total Net Assets	\$ 6,437,262	\$ 2,540,107	\$ 8,977,369	\$ 6,628,567

**The Notes to Financial Statements are an integral part of this statement.**

**ARENAC COUNTY**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2005

**EXHIBIT B**

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General Government	\$ 2,321,421	\$ 780,491	\$ 956,606	\$ 78,052	\$ (506,272)		\$ (506,272)	
Public Safety	2,297,806	442,957	454,820		(1,400,029)		(1,400,029)	
Public Works	23,417				(23,417)		(23,417)	
Health and Welfare	1,081,645	15,725	144,873		(921,047)		(921,047)	
Community and Economic Development	291,788	49,098	218,004		(24,686)		(24,686)	
Recreation and Culture	91,120	43,326			(47,794)		(47,794)	
Other	996,756				(996,756)		(996,756)	
Interest on Long-Term Debt	31,907				(31,907)		(31,907)	
Total Governmental Activities	7,135,860	1,331,597	1,774,303	78,052	(3,951,908)	\$ -	(3,951,908)	
Business-Type Activities								
Delinquent Tax Revolving Fund	1,500	188,960				187,460	187,460	
Tax Foreclosure	23,686	41,672				17,986	17,986	
Jail Commissary	3,219	2,946				(273)	(273)	
Total Business-Type Activities	28,405	233,578	-	-	-	205,173	205,173	
Total Primary Government	\$ 7,164,265	\$ 1,565,175	\$ 1,774,303	\$ 78,052	\$ (3,951,908)	\$ 205,173	\$ (3,746,735)	
Component Units								
Road Commission	\$ 2,843,414	\$ 1,214,022	\$ 2,473,162	\$ 570,109				\$ 1,413,879
Economic Development Corporation	11,249	5,142	10,137					4,030
Brownfield Redevelopment Authority	5,012							(5,012)
Drain Commission								
Public Works	82,977	99,316	21,542					37,881
Interest on Long-Term Debt	28,449							(28,449)
Total Component Units	\$ 2,859,675	\$ 1,219,164	\$ 2,504,841	\$ 570,109	\$ -	\$ -	\$ -	\$ 1,422,329
General Revenues								
Property Taxes					\$ 4,175,251		\$ 4,175,251	\$ 5,688
Interest Earnings							-	5,920
Unrestricted Investment Earnings					39,305	\$ 41,251	80,556	
Rentals					6,000		6,000	
Other Revenues					23,310		23,310	
Special Item--Gain on Disposal of Capital Assets							-	37,665
Transfers					524,370	(539,370)	(15,000)	15,000
Total General Revenues, Special Item and Transfers					4,768,236	(498,119)	4,270,117	64,273
Change in Net Assets					816,328	(292,946)	523,382	1,486,602
Net Assets--Beginning					5,620,934	2,997,893	8,618,827	5,107,808
Restatement to Net Assets						(164,840)	(164,840)	34,157
Restated Net Assets --Beginning					5,620,934	2,833,053	8,453,987	5,141,965
Net Assets--Ending					\$ 6,437,262	\$ 2,540,107	\$ 8,977,369	\$ 6,628,567

The Notes to Financial Statements are an integral part of this statement.

**ARENAC COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2005**

**EXHIBIT C**

	General Fund	Ambulance Fund	Friend of the Court Fund	Remonu- mentation Fund	911 Service Fund	Revenue Sharing Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>								
Cash and Cash Equivalents	\$ (2,124)		\$ 26,343	\$ (16,190)	\$ 172,476	\$ 301,869	\$ 330,173	\$ 812,547
Investments		\$ 281,764			277,264		-	559,028
Receivables								
Taxes--Current Levy	801,908	278,314			366,849	723,334	813,120	2,983,525
Accounts	32,509				6,294		33	38,836
Notes							1,096,094	1,096,094
Due From Local Units of Government	12,346							12,346
Due From Other Counties	43,473							43,473
Due From State	86,087		32,165	64,537	24,343		134,350	341,482
Due From Federal	696							696
Due From Other Funds--Primary Government	25,806						1,600	27,406
Advances to Other Funds--Primary Government	3,000							3,000
Advances to Other Funds--Component Units	47,000							47,000
Total Assets	\$ 1,050,701	\$ 560,078	\$ 58,508	\$ 48,347	\$ 847,226	\$ 1,025,203	\$ 2,375,370	\$ 5,965,433
<b><u>LIABILITIES AND FUND EQUITY</u></b>								
<b>Liabilities</b>								
Accounts Payable	\$ 99,306		\$ 10,134	\$ 31,968	\$ 8,228		\$ 29,877	\$ 179,513
Due to Other Funds--Primary Government			25,806				-	25,806
Due to State							18,952	18,952
Accrued Liabilities	33,217				9,518		8,340	51,075
Long-Term Advances From								
Other Funds--Primary Government							3,000	3,000
Deferred Revenue--Taxes	801,908	\$ 278,314			366,849		813,120	2,260,191
Deferred Revenue--Other							1,096,094	1,096,094
Total Liabilities	934,431	278,314	35,940	31,968	384,595	\$ -	1,969,383	3,634,631
<b>Fund Equity</b>								
<b>Fund Balances</b>								
<b>    Reserved for</b>								
Ambulance Services		281,764						281,764
Friend of the Court Grants			22,568					22,568
Remonumentation Program				16,379				16,379
911 Services					462,631			462,631
Capital Projects							5,298	5,298
Non-Major Special Revenue Programs							298,189	298,189
Long-Term Advances to Other Funds	50,000							50,000
<b>    Designated for</b>								
Capital Projects							1,323	1,323
Unreserved--Undesignated	66,270					1,025,203	101,177	1,192,650
Total Fund Equity	116,270	281,764	22,568	16,379	462,631	1,025,203	405,987	2,330,802
Total Liabilities and Fund Equity	\$ 1,050,701	\$ 560,078	\$ 58,508	\$ 48,347	\$ 847,226	\$ 1,025,203	\$ 2,375,370	\$ 5,965,433

**The Notes to Financial Statements are an integral part of this statement.**



**ARENAC COUNTY**  
**RECONCILIATION OF FUND BALANCES ON THE**  
**BALANCE SHEET FOR GOVERNMENTAL FUNDS**  
**TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**ON THE STATEMENT OF NET ASSETS**  
**December 31, 2005**

**EXHIBIT C-1**

Fund Balances--Total Governmental Funds	\$ 2,330,802
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Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds.

Add--Capital Assets	5,661,607
Deduct--Accumulated Depreciation	<u>(1,868,470)</u>

Net Capital Asset Addition	<u>3,793,137</u>
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Revenues that do not provide current financial resources are not reported as revenue in the governmental funds.	1,096,094
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Certain liabilities, such as compensated absences are not due and  
payable in the current period. Therefore, they are not reported  
in the funds' statement.

Deduct--Long-Term Debt	(611,389)
Deduct--Compensated Absences and Other Long-Term Liabilities	<u>(171,382)</u>

Net Assets of Governmental Activities	<u><u>\$ 6,437,262</u></u>
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**The Notes to Financial Statements are an integral part of this statement.**

**ARENAC COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2005**

**EXHIBIT D**

	General Fund	Ambulance Fund	Friend of the Court Fund	Remonu- mentation Fund	911 Service Fund	Revenue Sharing Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues								
Taxes and Penalties	\$ 2,473,352	\$ 266,416			\$ 342,430	\$ 430,804	\$ 662,249	\$ 4,175,251
Licenses and Permits	9,767						141,696	151,463
Federal Grants	60,654		\$ 131,415				375,675	567,744
State Grants	579,320		6,598	\$ 78,634	97,712		172,480	934,744
Contributions From Local Units	80,470							80,470
Charges for Services	811,907		16,808		81,078		126,792	1,036,585
Fines and Forfeitures	19,831						5,164	24,995
Interest and Rentals	43,577				1,728		245	45,550
Other Revenue	295,882				-		114,805	410,687
Total Revenues	4,374,760	266,416	154,821	78,634	522,948	430,804	1,599,106	7,427,489
Expenditures								
Current								
General Government	2,006,614		172,270	75,941			8,300	2,263,125
Public Safety	991,446				434,283		807,708	2,233,437
Public Works	23,417							23,417
Health and Welfare	315,122	247,067					519,456	1,081,645
Community and Economic Development	8,409						283,379	291,788
Recreation and Cultural							54,045	54,045
Other	996,756							996,756
Capital Outlay	65,381						171,757	237,138
Debt Service								
Principal	50,833						37,155	87,988
Interest and Fiscal Fees	5,534						26,373	31,907
Total Expenditures	4,463,512	247,067	172,270	75,941	434,283	-	1,908,173	7,301,246
Excess of Revenues Over (Under) Expenditures	(88,752)	19,349	(17,449)	2,693	88,665	430,804	(309,067)	126,243
Other Financing Sources (Uses)								
Interfund Transfers In								
Primary Government	387,415		39,924				426,839	854,178
Interfund Transfers (Out)								
Primary Government	(267,124)				(15,145)		(32,539)	(314,808)
Component Unit	(15,000)							(15,000)
Total Other Financing Sources (Uses)	105,291	-	39,924	-	(15,145)	-	394,300	524,370
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	16,539	19,349	22,475	2,693	73,520	430,804	85,233	650,613
Fund Balance--January 1, 2005	99,731	262,415	93	13,686	389,111	594,399	320,754	1,680,189
Fund Balance--December 31, 2005	\$ 116,270	\$ 281,764	\$ 22,568	\$ 16,379	\$ 462,631	\$ 1,025,203	\$ 405,987	\$ 2,330,802

The Notes to Financial Statements are an integral part of this statement.

**ARENAC COUNTY**  
**RECONCILIATION OF THE STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL**  
**FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2005**

**EXHIBIT D-1**

Net Change in Fund Balances--Total Governmental Funds	\$ 650,613
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Amounts reported for governmental activities in the Statement of Activities  
are different because:

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	329
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Governmental funds report capital outlays as expenditures. However,  
in the Statement of Activities, the costs of those assets are allocated over  
their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	237,138
Deduct--Depreciation Expense	(153,434)

Repayment of bond principal is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	87,988
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Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in the funds.	<u>(6,306)</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 816,328</u></u>
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**The Notes to Financial Statements are an integral part of this statement.**

**ARENAC COUNTY  
STATEMENT OF NET ASSETS  
ENTERPRISE FUNDS  
DECEMBER 31, 2005**

**EXHIBIT E**

	<b><u>BUSINESS-TYPE ACTIVITIES</u></b>		
	<b>Delinquent Tax Revolving</b>	<b>Non-Major Enterprise Funds</b>	<b>Total Enterprise Funds</b>
<b><u>ASSETS</u></b>			
Current Assets			
Cash and Cash Equivalents	\$ 1,178,403	\$ 21,831	\$ 1,200,234
Investments	705,449		705,449
Delinquent Taxes Receivable	610,139		610,139
Due From Other Governmental Units	15,539		15,539
Advance to Other Governmental Units	10,346		10,346
Total Assets	2,519,876	21,831	2,541,707
<b><u>LIABILITIES</u></b>			
Current Liabilities			
Due to Other Funds--Primary Government	1,600		1,600
Total Current Liabilities	1,600	-	1,600
Total Liabilities	1,600	-	1,600
<b><u>NET ASSETS</u></b>			
Unrestricted	2,518,276	21,831	2,540,107
Total Net Assets	\$ 2,518,276	\$ 21,831	\$ 2,540,107

**The Notes to Financial Statements are an integral part of this statement.**

**ARENAC COUNTY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS--ENTERPRISE FUNDS**  
**For the Year Ended December 31, 2005**

**EXHIBIT F**

	<b><u>BUSINESS-TYPE ACTIVITIES</u></b>		
	<b>Delinquent Tax Revolving</b>	<b>Non-Major Enterprise Funds</b>	<b>Total Enterprise Funds</b>
Operating Revenues			
Interest on Delinquent Taxes	\$ 122,410		\$ 122,410
Property Tax Administration Fees	60,225		60,225
Charges for Services		\$ 44,618	44,618
Other	6,325		6,325
Total Operating Revenues	188,960	44,618	233,578
Operating Expenses			
Contractual Services	1,000		1,000
Title Search Fees		19,951	19,951
Supplies and Materials		3,219	3,219
Other	500	3,735	4,235
Total Operating Expenses	1,500	26,905	28,405
Operating Income (Loss)	187,460	17,713	205,173
Nonoperating Revenues (Expenses)			
Interest and Investment Revenue	41,251		41,251
Total Nonoperating Revenues (Expenses)	41,251	-	41,251
Income (Loss) Before Contributions and Transfers	228,711	17,713	246,424
Interfund Transfers			
Transfers In	20,109		20,109
Transfers (Out)	(555,370)	(4,109)	(559,479)
Change in Net Assets	(306,550)	13,604	(292,946)
Net Assets--Beginning of Year	2,989,666	8,227	2,997,893
Restatement to Beginning of Year Net Assets (Note O)	(164,840)		(164,840)
Restated Net Assets--Beginning of Year	2,824,826	8,227	2,833,053
Net Assets--End of Year	\$ 2,518,276	\$ 21,831	\$ 2,540,107

**The Notes to Financial Statements are an integral part of this statement.**

**ARENAC COUNTY**  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
**For the Year Ended December 31, 2005**

**EXHIBIT G**

	<b><u>BUSINESS-TYPE ACTIVITIES</u></b>		
	Delinquent Tax Revolving	Non-Major Enterprise Funds	Total
Cash Flows From Operating Activities			
Interest on Delinquent Taxes	\$ 122,410		\$ 122,410
Property Tax Administration Fees	60,225		60,225
Other Operating Revenue	6,325		6,325
Charges for Services		\$ 44,618	44,618
Delinquent Taxes Collected	1,530,397		1,530,397
Delinquent Taxes Purchased	(1,605,167)		(1,605,167)
Goods and Services Purchased	(7,268)	(26,907)	(34,175)
Net Cash Provided by Operating Activities	106,922	17,711	124,633
Cash Flows From Noncapital Financing Activities			
Transfers In/(Out)	(535,261)	(4,109)	(539,370)
Net Cash Flows From Noncapital Financing Activities	(535,261)	(4,109)	(539,370)
Cash Flows From Investing Activities			
Interest on Cash Equivalents	43,467		43,467
Purchase of Investments	(10,921)		(10,921)
Net Cash Provided by Investing Activities	32,546	-	32,546
Net Increase in Cash and Cash Equivalents	(395,793)	13,602	(382,191)
Cash and Cash Equivalents--January 1, 2005	1,574,196	8,229	1,582,425
Cash and Cash Equivalents--December 31, 2005	<u>\$ 1,178,403</u>	<u>\$ 21,831</u>	<u>\$ 1,200,234</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 187,460	\$ 17,713	\$ 205,173
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Changes in Assets and Liabilities			
Decrease (Increase) in Accounts Receivable	38,855		38,855
Decrease (Increase) in Delinquent Taxes Receivable	(113,625)		(113,625)
Increase (Decrease) in Accounts Payable	(5,768)	(2)	(5,770)
Net Cash Provided by Operating Activities	<u>\$ 106,922</u>	<u>\$ 17,711</u>	<u>\$ 124,633</u>

**The Notes to Financial Statements are an integral part of this statement.**

**ARENAC COUNTY  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
December 31, 2005**

**EXHIBIT H**

	<u>Agency Funds</u>
<b><u>ASSETS</u></b>	
Cash	<u>\$ 525,100</u>
Total Assets	<u><u>\$ 525,100</u></u>

**LIABILITIES AND FUND BALANCE**

Liabilities	
Due to State of Michigan	\$ 39,555
Undistributed Tax Collections	286,610
Undistributed Penal Fines	86,347
Other Liabilities	<u>112,588</u>
Total Liabilities	<u><u>\$ 525,100</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**ARENAC COUNTY**  
**COMBINING STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
**December 31, 2005**

**EXHIBIT I**

	<b>GOVERNMENTAL ACTIVITIES</b>				
	Road Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Drain Commission	Total
<b><u>ASSETS</u></b>					
Current Assets					
Cash	\$ 399,162	\$ 23,690	\$ 982	\$ 270,303	\$ 694,137
Investments	206,446				206,446
Receivables (Net)					
Accounts	513,164				513,164
Interest	252				252
Inventories	222,921				222,921
Prepaid Expenses	23,439				23,439
Total Current Assets	1,365,384	23,690	982	270,303	1,660,359
Noncurrent Assets					
Special Assessments Receivable					
Due Within One Year				141,567	141,567
Due in More Than One Year				203,327	203,327
Due From Local Units of Government					
Due Within One Year				17,000	17,000
Due in More Than One Year				320,000	320,000
Capital Assets (Net of Accumulated Depreciation)	4,670,380			734,894	5,405,274
Total Noncurrent Assets	4,670,380	-	-	1,416,788	6,087,168
Total Assets	6,035,764	23,690	982	1,687,091	7,747,527
<b><u>LIABILITIES</u></b>					
Current Liabilities					
Accounts Payable	269,220				269,220
Accrued Liabilities	22,601				22,601
Advances From State	160,075				160,075
Deferred Revenue	30,252				30,252
Total Current Liabilities	482,148	-	-	-	482,148
Noncurrent Liabilities					
Long-Term Advances From					
Primary Government--General Fund				47,000	47,000
Bonds Payable					
Due Within One Year				17,000	17,000
Due in More Than One Year				320,000	320,000
Notes Payable					
Due Within One Year				30,000	30,000
Due in More Than One Year				180,000	180,000
Vested Employee Benefits Payable					
Due Within One Year	4,281				4,281
Due in More Than One Year	38,531				38,531
Total Noncurrent Liabilities	-	-	-	594,000	594,000
Total Liabilities	524,960	-	-	594,000	1,118,960
<b><u>NET ASSETS</u></b>					
Invested in Capital Assets--Net of Related Debt	4,670,380			524,894	5,195,274
Restricted for					
County Roads	840,424				840,424
Economic Development		23,690			23,690
Brownfield Redevelopment Authority			982		982
Drain Commission					
Capital Projects				568,197	568,197
Total Net Assets	\$ 5,510,804	\$ 23,690	\$ 982	\$ 1,093,091	\$ 6,628,567

The Notes to Financial Statements are an integral part of this statement.



**ARENAC COUNTY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
**Year Ended December 31, 2005**

**EXHIBIT J**

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Drain Commission	Total
Governmental Activities									
Road Commission									
Public Works	\$ 2,843,414	\$ 1,214,022	\$ 2,473,162	\$ 570,109	\$ 1,413,879				\$ 1,413,879
Total Road Commission	2,843,414	1,214,022	2,473,162	570,109	1,413,879	\$ -	\$ -	\$ -	1,413,879
Economic Development Corporation									
Community and Economic Development	11,249	5,142	10,137			4,030			4,030
Total Economic Development Corporation	11,249	5,142	10,137	-	-	4,030		-	4,030
Brownfield Redevelopment Authority									
Community and Economic Development	5,012						(5,012)		(5,012)
Total Brownfield Redevelopment Authority	5,012	-	-	-	-	-	(5,012)	-	(5,012)
Drain Commission									
Public Works	82,977	99,316	21,542					37,881	37,881
Interest on Related Debt	28,449							(28,449)	(28,449)
Total Drain Commission	\$ 111,426	\$ 99,316	\$ 21,542	\$ -	-	-	-	9,432	9,432
General Revenues									
Property Taxes							5,688		5,688
Investment Earnings					5,920				5,920
Special Item--Gain on Sale of Capital Assets					37,665				37,665
Transfers						15,000			15,000
Total General Revenues, Special Items and Transfers					43,585	15,000		-	64,273
Change in Net Assets					1,457,464	19,030		9,432	1,486,602
Net Assets--Beginning of Year					4,053,340	4,660	306	1,049,502	5,107,808
Restatement to Net Assets								34,157	34,157
Restated Net Assets--Beginning of Year					4,053,340	4,660	306	1,083,659	5,141,965
Net Assets--End of Year					\$ 5,510,804	\$ 23,690	\$ 982	\$ 1,093,091	\$ 6,628,567

The Notes to Financial Statements are an integral part of this statement.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Reporting Entity

Arenac County, Michigan, was organized in 1883 and covers an area of 366 square miles divided into 12 townships, 3 cities and 3 villages. The county is governed by an elected 5-member board of commissioners and provides services to its more than 17,269 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present Arenac County (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The component units, discussed below, are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

The component unit columns in the basic financial statements include the financial data of the Arenac County Road Commission, Economic Development Corporation, Brownfield Redevelopment Authority and Drain Commission. These financial statements are reported in separate columns to emphasize that they are legally separate from the county.

#### BLENDED COMPONENT UNITS

##### Building Authority

The Arenac County Building Authority is governed by a 5-member board appointed by the county board of commissioners. Although it is legally separate from the county, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the county's public buildings.

##### Arenac County Housing Commission

The Arenac County Housing Commission was created on March 17, 1975 in the State of Michigan, under the provisions of Public Act 18 of the Extra Session of 1933, as amended. A 5-member board appointed by the Arenac County Board of Commissioners administers the Housing Commission. Although it is legally separate from the county, the Housing Commission is reported as if it were part of the primary government because its sole purpose is to rehabilitate and make safe inhabited dwellings existing in the County of Arenac. The Arenac County Board of Commissioners approves all grants received by the Housing Commission.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### DISCRETELY PRESENTED COMPONENT UNITS

###### Road Commission

The Arenac County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval.

###### Economic Development Corporation

The Arenac County Economic Development Corporation (EDC) was established pursuant to the provisions of Public Act 338 of 1974, as amended. The EDC is included as part of the Arenac County entity for financial reporting purposes because the Arenac County Board of Commissioners appoints its 11-member board of directors. The EDC may not issue debt without the county's approval and the EDC administers the County's Economic Development Revolving Loan Fund established by Federal grants to the county.

###### Brownfield Redevelopment Authority

The Arenac County Brownfield Redevelopment Authority (BRA) was established pursuant to the provisions of Public Act 381 of 1996, as amended. The BRA is included as part of the Arenac County entity for financial reporting purposes because the Arenac County Board of Commissioners appoints its 11-member board of directors. The BRA may not issue debt without the county's approval and the BRA administers the County's Brownfield Redevelopment Authority Fund established to facilitate the implementation of Brownfield plans relating to the identification and treatment of environmentally distressed (functionally obsolete and/or blighted) areas so as to promote revitalization within the municipal limits of Arenac County.

###### Drain Commission

The Arenac County Drain Commission was established pursuant to the Drain Code of 1956. The drain commissioner has the responsibility to administer the State Drain Code, which involves planning, developing, and maintaining surface water drainage systems within the county. The Arenac County Drain Commission may issue debt or levy a tax as authorized by the Drain Code without the approval of the county board of commissioners.

Complete audited and/or unaudited financial statements of the individual component units can be obtained from their respective administrative offices.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Administrative Offices

Arenac County Housing Commission  
120 North Grove Street  
Standish, Michigan 48658

Arenac County Road Commission  
116 Bridge Street  
Omer, Michigan 48649

Arenac County Economic Development Corporation  
120 North Grove Street  
Standish, Michigan 48658

Arenac County Drain Commission  
120 North Grove Street  
Standish, Michigan 48658

Arenac County Brownfield Redevelopment Authority  
120 North Grove Street  
Standish, Michigan 48658

##### Jointly Governed Organization--Central Michigan District Health Department

Arenac County, in conjunction with Arenac, Gladwin, Isabella, Osceola and Roscommon counties, has created the Central Michigan District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Isabella County, as a discretely presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation.

Member counties' percentages of the net operating budget for 2005 were:

Arenac	9.94%	Isabella	28.50%
Gladwin	14.36%	Osceola	12.92%
Clare	16.85%	Roscommon	17.43%

Arenac County's 2005 formula appropriation to the District Health Department was \$113,489. The county also paid the Health Department \$6,730 for the family nutrition program and \$7,620 for the cigarette tax pass through.

##### Jointly Governed Organization--Bay Arenac Community Mental Health Services Board

Arenac County, in conjunction with Bay County, has created the Bay Arenac Community Mental Health Services Board which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended. Community Mental Health Services Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by the respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Bay County, as a discretely presented component unit. The funding of the Mental Health Authority operations is based pro rata on each unit's population to the district's total population.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Arenac County's 2005 appropriation to the Mental Health Board was \$104,812.

#### Related Organizations--Arenac County Council on Aging

Arenac County Council on Aging is a non-profit corporation. The council is a legally separate organization established for providing and promoting services to the aged and disabled. The voters approved a special millage to fund the Council on Aging.

The council consists of the entire geographic area of Arenac County. It is governed by not more than 15 or less than 12 board members. Members serve for up to two consecutive 3-year terms and are elected by a majority of the presiding board. Upon dissolution, all assets shall be distributed for one or more exempt purposes.

Arenac County does levy a tax to provide services to older persons. Revenues from the tax are accounted for in a special revenue fund. An agreement for services to older persons was entered into with the Arenac County Council on Aging.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

The county reports the following major governmental funds:

The General Fund is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Ambulance Fund accounts for property taxes used to support ambulance services provided to county citizens.

The Friend of the Court Fund accounts for Federal grants, State grants and charges for services used for family programs administered by the county.

The Remonumentation Fund accounts for State grants used for remarking land divisions within the county.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The 911 Service Fund accounts for property taxes, surcharges and State wireless surcharges used to support the 911 service provided by the county.

The Revenue Sharing Reserve Fund accounts for advance property tax collections used to replace the state revenue sharing program within the county.

The county reports the following major proprietary funds:

The Delinquent Tax Revolving Fund accounts for the county's annual purchase of delinquent real property taxes from each of the local taxing units within the county and the ultimate collection from the property owners of the delinquent taxes with penalty and interest.

Additionally, the county reports the following fund type:

Agency Funds--These funds account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds that are subject to this same limitation. The county has elected to consistently apply all applicable FASB pronouncements, issued subsequent to November 30, 1989, in accounting and reporting for its proprietary operation.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Delinquent Tax Fund and the Jail Commissary Fund are collection fees for delinquent taxes and sales commissions, respectively. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the county's policy to use restricted resources first, then unrestricted resources as they are needed.

#### Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less, when acquired, are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value.

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxes Receivable--Current

The county property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

Although the county's 2005 ad valorem taxes are levied and collectible on December 1<sup>st</sup>, it is the county's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the county operations.

The 2005 State equalized valuation of Arenac County amounted to \$716,159,205 and the taxable valuation is \$477,745,184, on which ad valorem taxes of 3.3012 mills were approved and levied for county operating purposes, .7444 mills for senior citizens programs, .5844 mills for county ambulance service, .9926 mills for the county's road patrol and .7940 mills for E-911 service. The 2005 current tax levy is recognized as property taxes receivable in the respective funds with an offsetting credit to deferred revenue. However, property taxes receivable and deferred revenue in the General Fund have been reduced by \$723,334 because \$292,530 and \$430,804 of the 2005 county operating tax levy was recorded as 2005 revenue in the General Fund and Revenue Sharing Reserve Fund, respectively, in accordance with Public Act 357 of 2004 which provided a funding mechanism to serve as a substitute for revenue sharing payments from the state to the county. This substitute funding mechanism involves a gradual shift, over three years, of county property tax millage from a winter tax levy to a summer tax levy.

#### Taxes Receivable--Delinquent

The delinquent taxes receivable recorded in the Delinquent Tax Revolving Fund consist of uncollected real property taxes levied prior to 2005. The delinquent real property taxes may be summarized as follows:

2004	\$ 484,160
2003	70,727
2002	24,249
2001	8,463
2000 and Prior	<u>22,540</u>
Total Delinquent Taxes Receivable	<u>\$ 610,139</u>

### INVENTORIES

#### Road Commission (Component Unit)

Inventory, consisting of various operating parts, supplies and road material is stated at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.



# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### PROPERTY, PLANT AND EQUIPMENT

##### Capital Assets--Primary Government and Drain Component Unit

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Land Improvements	20 to 25 years
Buildings	15 to 50 years
Equipment	3 to 10 years
Vehicles	5 to 10 years

##### Capital Assets--Road Commission (Component Unit)

Capital assets, which include property, equipment, and infrastructure assets (roads, bridges, and similar items) are reported in the government-wide financial statements. Capital assets are defined by the Arenac County Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the Road Commission's fund financial statements and are subsequently capitalized in the government-wide statements through an adjustment to the Road Commission's General Operating Fund.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available fund balance of the Road Commission's General Operating Fund.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) in 2005 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively, beginning with the year ended December 31, 2004.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	5 to 30 years
Infrastructure--Bridges	12 to 50 years
Infrastructure--Traffic Signals	15 years

#### Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

#### Other Financing Sources (Uses)

In the fund financial statements, the transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

#### Compensated Absences (Vacation and Sick Leave)

It is the county's policy to permit employees to accumulate earned unused sick and vacation pay benefits. A liability for vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

##### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

##### Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, which requires the county board of commissioners to approve budgets for the General Fund and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Budgets are adopted by the county board of commissioners for the General Fund and special revenue funds, except for the County Road Fund, County Economic Development Corporation Fund, and the County Brownfield Redevelopment Authority Fund, whose budgets are adopted and administered by each of their boards. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The General Fund budget is adopted at the activity level and control is exercised at that level. The special revenue funds' budgets are adopted at the functional level and control is exercised at that level. The county board of commissioners has authorized the county treasurer to make General Fund budget transfers between activities when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval.

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--MATERIAL VIOLATIONS OF LEGAL PROVISIONS

#### Budget Violations

Public Act 2 of 1968, Section 19(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The county's actual expenditures for the funds budgeted have been shown on an activity basis for the General Fund and function basis for special revenue funds. The approved budgets of the county were adopted at the activity level for the General Fund and at the function level for special revenue funds.

During the fiscal year ended December 31, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for special revenue funds as follows:

<u>Fund and Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Ambulance			
Health and Welfare	\$ 247,000	\$ 247,067	\$ (67)
Friend of the Court			
General Government	171,829	172,270	(441)
Remonumentation			
General Government	74,000	75,941	(1,941)
Sheriff Department Donations			
Public Safety	36,000	38,048	(2,048)
Housing Commission			
Community and Economic Development	253,205	283,379	(30,174)
Family Court Juvenile			
Health and Welfare	13,300	14,327	(1,027)
Child Care Probate			
Health and Welfare	248,450	266,962	(18,512)
Veterans Trust			
Health and Welfare	3,200	3,246	(46)

### NOTE D--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--CASH AND INVESTMENTS (Continued)

The county has designated eight financial institutions for deposit of the county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized investment in accordance with the State statutory authority as listed above.

At year end, Arenac County's deposits and investments were reported in the basic financial statements in the following categories:

	Carrying Amounts				
	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Units
<u>Cash and Deposits</u>					
Cash and Cash Equivalents	\$ 812,547	\$ 1,200,234	\$ 525,100	\$ 2,537,881	\$ 694,137
Investments	559,028	705,449		1,264,477	206,446
Total	<u>\$ 1,371,575</u>	<u>\$ 1,905,683</u>	<u>\$ 525,100</u>	<u>\$ 3,802,358</u>	<u>\$ 900,583</u>

The breakdown between deposits and investments, as follows:

	Primary Government	Component Units
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 2,572,118	\$ 693,536
Investments in Securities, Mutual Funds and Similar Vehicles	1,254,113	206,446
Petty Cash and Cash on Hand	<u>1,900</u>	<u>300</u>
Total	<u>\$ 3,828,131</u>	<u>\$ 900,282</u>

The bank balance of the primary government's deposits is \$2,572,118, of which \$300,000 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$693,536 of which \$100,000 was covered by Federal depository insurance.

The Michigan Class pool is a non-rated pool so disclosures are not required. The Governmental Money Market Fund from Bank One has not been rated.

### Investments Authorized by the County's Investment Policy

The county's investment policy only authorizes investment in all those that are authorized by law. The county has limited its investments to money markets.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE D--CASH AND INVESTMENTS (Continued)

##### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the county manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

<u>Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Governmental Money Market Fund	\$ 5,204	41 days

##### Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the county contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

##### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE E--RECEIVABLES

Receivables as of year end for the primary government's individual major and aggregate nonmajor funds, and component units, including the applicable allowances for uncollectible accounts, are as follows:

<b>PRIMARY GOVERNMENT</b>					
	<u>General Fund</u>	<u>Ambulance Fund</u>	<u>Friend of the Court Fund</u>	<u>Remonu- mentation Fund</u>	<u>911 Service Fund</u>
Taxes	\$ 801,908	\$ 278,314			\$ 366,849
Accounts	32,509				6,294
Interest Receivable					
Notes					
Due From State	86,087		\$ 32,165	\$ 64,537	24,343
Due From Federal	696				
Due From Other					
Counties	43,473				
Governmental Units	12,346				
Total	<u>\$ 977,019</u>	<u>\$ 278,314</u>	<u>\$ 32,165</u>	<u>\$ 64,537</u>	<u>\$ 397,486</u>

<b>PRIMARY GOVERNMENT</b>					
	<u>Revenue Sharing Reserve Fund</u>	<u>Delinquent Tax Revolving Fund</u>	<u>Non-Major Funds</u>	<u>Total</u>	<u>Component Units</u>
Taxes	\$ 723,334	\$ 610,139	\$ 813,120	\$ 3,593,664	
Accounts			33	38,836	\$ 513,164
Interest					252
Notes			1,096,094	1,096,094	
Due From State			134,350	341,482	
Due From Federal				696	
Due From Other					
Counties				43,473	
Governmental Units		15,539		27,885	
Total	<u>\$ 723,334</u>	<u>\$ 625,678</u>	<u>\$ 2,043,597</u>	<u>\$ 5,142,130</u>	<u>\$ 513,416</u>

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE E--RECEIVABLES (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes--Current Levy	\$ 2,260,191	
Special Assessments	344,894	
Due From Village of Twining--Sewer (Note 1)	337,000	
Long-Term Notes Receivable	<u>1,096,094</u>	<u>          </u>
Total	<u><u>\$ 4,038,179</u></u>	<u><u>\$ -</u></u>

Note 1--The Village of Twining's February 29, 2005 fiscal year end audit report includes the following "going concern" note: Untimely billings for services rendered, insufficient sewer assessments, and an inability to meet debt requirements has created a going concern issue. Management plans to seek additional grants from the State of Michigan to assist in the payment of the debt.



# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The amounts of interfund receivables and payables for the primary government are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Due From/To Other Funds			
General	\$ 25,806	Friend of the Court	\$ 25,806
Non-Major Governmental	<u>1,600</u>	Delinquent Tax Revolving	<u>1,600</u>
Total	<u>\$ 27,406</u>		<u>\$ 27,406</u>

The amounts of interfund receivables and payables for the component units are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Due From/To Other Funds			
Drain Revolving	<u>\$ 26,456</u>	Drain	<u>\$ 26,456</u>
Total	<u>\$ 26,456</u>		<u>\$ 26,456</u>
Total Reporting Entity	<u>\$ 53,862</u>	Total Reporting Entity	<u>\$ 53,862</u>

The long-term advances to other funds, which represent long-term interfund receivables and payables that are not available to finance current operations, are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances To/From Other Funds			
General	<u>\$ 3,000</u>	Non-Major Governmental	<u>\$ 3,000</u>
Total Primary Government	<u>\$ 3,000</u>	Total Primary Government	<u>\$ 3,000</u>

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS (Continued)

#### Primary Government and Discrete Component Units

	<u>Amount</u>		<u>Amount</u>
Advances To/From Other Funds			
Primary Government		Component Unit	
General	<u>\$ 47,000</u>	Drain Revolving	<u>\$ 47,000</u>
Total Primary Government	<u>\$ 47,000</u>	Total Component Unit	<u>\$ 47,000</u>
Total Reporting Entity	<u>\$ 50,000</u>	Total Reporting Entity	<u>\$ 50,000</u>

The 2005 operating transfers from Exhibits D and F can be summarized as follows for the primary government and component units:

#### Interfund Transfers

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
General	\$ 387,415	Delinquent Tax Revolving	\$ 383,340
		Non-Major Governmental	4,075
Friend of the Court	39,924	General	39,924
Non-Major Governmental	426,839	General	227,200
		Delinquent Tax Revolving	172,030
		911 Service	15,145
		Non-Major Governmental	12,464
Delinquent Tax Revolving	20,109	Non-Major Governmental	16,000
		Non-Major Business-Type	4,109
Total Primary Government	<u>\$ 874,287</u>		<u>\$ 874,287</u>
Component Unit		Primary Government	
Economic Development Corporation	<u>\$ 15,000</u>	General	<u>\$ 15,000</u>
Total Component Units	<u>\$ 15,000</u>		<u>\$ 15,000</u>
Total Reporting Entity	<u>\$ 889,287</u>		<u>\$ 889,287</u>

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--CAPITAL ASSETS

Capital asset activity of the primary government for the current year, as follows:

	Account Balances 01/01/05	Additions	Deductions	Account Balances 12/31/05
Capital Assets Not Being Depreciated				
Land	\$ 1,619,288			\$ 1,619,288
Subtotal	1,619,288	\$ -	\$ -	1,619,288
Capital Assets Being Depreciated				
Land Improvements	102,605			102,605
Buildings	3,188,471	176,390		3,364,861
Equipment	159,815	35,057	10,495	184,377
Vehicles	354,290	25,691	92,149	287,832
Total	3,805,181	237,138	102,644	3,939,675
Less Accumulated Depreciation				
Land Improvements	9,467	5,051		14,518
Buildings	1,349,163	98,376		1,447,539
Equipment	51,511	19,662	10,495	60,678
Vehicles	304,895	30,345	92,149	243,091
Total	1,715,036	153,434	102,644	1,765,826
Net Capital Assets Being Depreciated	2,090,145	83,704	153,434	2,173,849
Total Net Capital Assets	<u>\$ 3,709,433</u>	<u>\$ 83,704</u>	<u>\$ 153,434</u>	<u>\$ 3,793,137</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 48,186
Public Safety	68,173
Recreation and Cultural	<u>37,075</u>
Total Depreciation Expense	<u>\$ 153,434</u>

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--CAPITAL ASSETS (Continued)

#### Road Commission--Discretely Presented Component Unit

	Account Balances 01/01/05	Additions	Deductions	Account Balances 12/31/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 9,200			\$ 9,200
Subtotal	9,200	\$ -	\$ -	9,200
Capital Assets Being Depreciated				
Buildings	373,344	11,900		385,244
Road Equipment	3,077,682	379,159	296,277	3,160,564
Shop Equipment	106,537	1,925		108,462
Engineers' Equipment	43,447	-		43,447
Yard and Storage Equipment	137,103	-		137,103
Office Equipment	90,360	12,815		103,175
Depletable Assets	623	-	623	-
Infrastructure--Roads	1,589,368	2,065,759		3,655,127
Infrastructure--Bridges	519,413	4,757		524,170
Total	5,937,877	2,476,315	296,900	8,117,292
Less Accumulated Depreciation				
Buildings	320,510	11,909		332,419
Road Equipment	2,556,434	162,888	288,542	2,430,780
Shop Equipment	94,808	2,303		97,111
Engineers' Equipment	36,625	1,625		38,250
Yard and Storage Equipment	117,552	5,979		123,531
Office Equipment	67,201	4,393		71,594
Infrastructure--Roads	95,160	240,846		336,006
Infrastructure--Bridges	13,115	13,306		26,421
Total	3,301,405	443,249	288,542	3,456,112
Net Capital Assets Being Depreciated	2,636,472	2,033,066	8,358	4,661,180
Total Net Capital Assets	<u>\$ 2,645,672</u>	<u>\$ 2,033,066</u>	<u>\$ 8,358</u>	<u>\$ 4,670,380</u>

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--CAPITAL ASSETS (Continued)

#### Drain Commission Discretely Presented Component Unit

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Infrastructure				
1913 Drains	\$ 115,440			\$ 115,440
1933 Drains	1,829,190			1,829,190
1953 Drains	1,692,600			1,692,600
Bowden Drain	<u>34,157</u>	<u>\$ 158,010</u>		<u>192,167</u>
Subtotal	<u>3,671,387</u>	<u>158,010</u>	<u>\$ -</u>	<u>3,829,397</u>
Less Accumulated Depreciation for				
Infrastructure				
1913 Drains	115,440			115,440
1933 Drains	1,756,008	24,389		1,780,397
1953 Drains	1,173,536	22,568		1,196,104
Bowden Drain	<u>-</u>	<u>2,562</u>		<u>2,562</u>
Subtotal	<u>3,044,984</u>	<u>49,519</u>	<u>-</u>	<u>3,094,503</u>
Net Capital Assets Being Depreciated	<u>626,403</u>	<u>108,491</u>	<u>49,519</u>	<u>734,894</u>
Drain Commission--Component Unit				
Total Net Capital Assets	<u>\$ 626,403</u>	<u>\$ 108,491</u>	<u>\$ 49,519</u>	<u>\$ 734,894</u>

The beginning capital asset balance of \$34,157, for the Bowden Drain, was restated due to construction costs during 2004 that were not previously recognized.

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT

The county issues bonds to provide for the acquisition and construction of major capital improvements. General obligation bonds are direct obligations and pledge the full faith and credit of the county. County contractual agreements and installment purchase agreements are also general obligations of the county. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the county is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized, as follows:

<u>Governmental Activities</u>	<u>Balance 01/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Municipal lease purchase agreement for courthouse building renovation with capital cost of \$403,695; requires 19 semi-annual payments of \$28,184 beginning November 1998 and ending November 2006 at an interest rate of 6%.	\$ 104,640	\$ (50,833)	\$ 53,807	\$ 53,807
Arenac County Building Authority Municipal Securities for the acquisition of new park land, construction of new 911 facilities, and construction for additional administration offices for the county jail with a capital cost of \$905,000; maturing serially through 2021 with amounts ranging from \$25,000 to \$250,000 at an interest rate ranging from 3.8% to 5.0%.	585,000	(35,000)	550,000	35,000
Municipal lease purchase agreement for the acquisition of park maintenance equipment with a capital cost of \$12,960 beginning June 2004 and ending June 2008 at an interest rate of 7.9%.	9,737	(2,155)	7,582	2,331
Accrued Employee Benefits Payable	<u>165,076</u>	<u>6,306</u>	<u>171,382</u>	<u>17,138</u>
Total Governmental Activities	<u>\$ 864,453</u>	<u>\$ (81,682)</u>	<u>\$ 782,771</u>	<u>\$ 108,276</u>

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

<u>Component Unit Activities</u>	<u>Balance 01/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
<u>Drain Commission</u>				
Village of Twining Sanitary Sewer Drain, original bonds dated October 9, 1989, in the amount of \$532,000 at 6% interest for 23 years.	\$ 353,000	\$ (16,000)	\$ 337,000	\$ 17,000
Bodwin Drainage District, original bond dated December 1, 2004, in the amount of \$210,000 at 3.69% interest for 8 years.	<u>210,000</u>	<u>          </u>	<u>210,000</u>	<u>30,000</u>
Total Drain Commission	<u>\$ 563,000</u>	<u>\$ (16,000)</u>	<u>\$ 547,000</u>	<u>\$ 47,000</u>
<u>Road Commission</u>				
Accrued Employee Benefits Payable	<u>\$ 44,899</u>	<u>\$ (2,087)</u>	<u>\$ 42,812</u>	<u>\$ 4,281</u>
Total Road Commission	<u>\$ 44,899</u>	<u>\$ (2,087)</u>	<u>\$ 42,812</u>	<u>\$ 4,281</u>
Total Component Unit Activities	<u>\$ 607,899</u>	<u>\$ (18,087)</u>	<u>\$ 589,812</u>	<u>\$ 51,281</u>
Total Reporting Entity Activities	<u>\$ 1,472,352</u>	<u>\$ (99,769)</u>	<u>\$ 1,372,583</u>	<u>\$ 159,557</u>

The debt service requirements to maturity for the county's debt obligations outstanding at December 31, 2005 are as follows:

### Annual Debt Service Requirements--Governmental Activities

Municipal lease purchase agreement for courthouse building renovation with capital cost of \$403,695; requires 19 semi-annual payments of \$28,184 beginning November 1998 and ending November 2006 at an interest rate of 6%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2006	<u>\$ 53,807</u>	<u>\$ 2,424</u>	<u>\$ 56,231</u>
	<u>\$ 53,807</u>	<u>\$ 2,424</u>	<u>\$ 56,231</u>

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

Arenac County Building Authority Municipal Securities, dated October 1, 2001, for the acquisition of new park land, construction of new 911 facilities, and construction for additional administration offices for the county jail with a capital cost of \$905,000, maturing serially through 2021 with amounts ranging from 25,000 to 250,000, at an interest rate ranging from 3.8% to 5.0%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2006	\$ 35,000	\$ 24,245	\$ 59,245
2007	35,000	22,915	57,915
2008	35,000	21,568	56,568
2009	35,000	20,176	55,176
2010	35,000	18,733	53,733
2011	35,000	17,236	52,236
2012	35,000	15,688	50,688
2013	35,000	14,095	49,095
2014	35,000	12,468	47,468
2015	35,000	10,805	45,805
2016	35,000	9,107	44,107
2017	35,000	7,375	42,375
2018	35,000	5,625	40,625
2019	35,000	3,875	38,875
2020	35,000	2,125	37,125
2021	<u>25,000</u>	<u>625</u>	<u>25,625</u>
	<u>\$ 550,000</u>	<u>\$ 206,661</u>	<u>\$ 756,661</u>

Municipal lease purchase agreement for the acquisition of park maintenance equipment with a capital cost of \$12,960 beginning June 2004 and ending June 2008 at an interest rate of 7.9%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2006	\$ 2,331	\$ 621	\$ 2,952
2007	2,522	430	2,952
2008	<u>2,729</u>	<u>224</u>	<u>2,953</u>
	<u>\$ 7,582</u>	<u>\$ 1,275</u>	<u>\$ 8,857</u>



# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### Drain (Component Unit)

Village of Twining Sanitary Sewer Drain--original bond dated October 9, 1989 in the amount of \$532,000 at 6.0% interest for 30 years.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2006	\$ 17,000	\$ 19,710	\$ 36,710
2007	18,000	18,120	36,120
2008	20,000	17,520	37,520
2009	20,000	16,320	36,320
2010	22,000	15,120	37,120
2011	23,000	13,830	36,830
2012	24,000	11,580	35,580
2013	26,000	10,800	36,800
2014	27,000	9,210	36,210
2015	29,000	7,530	36,530
2016	31,000	5,730	36,730
2017	30,000	3,900	33,900
2018	31,000	2,070	33,070
2019	19,000	570	19,570
	<u>\$ 337,000</u>	<u>\$ 152,010</u>	<u>\$ 489,010</u>

Bodwin Drainage District, original bond dated December 1, 2004 in the amount of \$210,000 at 3.69% interest for 8 years.

<u>Year</u>	<u>Principal</u>	<u>1-Jun Interest</u>	<u>1-Dec Interest</u>	<u>Annual Total</u>
2006	\$ 30,000	\$ 3,875	\$ 3,874	\$ 37,749
2007	30,000	3,321	3,321	36,642
2008	30,000	2,767	2,768	35,535
2009	30,000	2,214	2,214	34,428
2010	30,000	1,661	1,660	33,321
2011	30,000	1,107	1,107	32,214
2012	30,000	553	554	31,107
	<u>\$ 210,000</u>	<u>\$ 15,498</u>	<u>\$ 15,498</u>	<u>\$ 240,996</u>

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE I--COMPENSATED ABSENCES

#### Accrued Vacation and Sick Leave Payable

The county and Road Commission (component unit) have accrued liabilities to their employees for accumulated vacation and vested sick leave benefits as of December 31, 2005, as follows:

	<u>Sick/ Vacation</u>
Vested Employee Benefits Payable--Primary Government	
General Government	
County General Employees	\$ 66,856
District Court	16,030
Circuit Court	18,883
Public Safety	
Sheriff Department Employees	48,259
E-911 Office	<u>21,354</u>
Total Vested Employee Benefits Payable	
Primary Government	171,382
Vested Employee Benefits Payable--Component Unit	
Road Commission Employees	<u>42,812</u>
Total Vested Employee Benefits Payable	
Reporting Entity	<u><u>\$ 214,194</u></u>

The above amounts for the primary government are reported on the Statement of Net Assets as a noncurrent liability in the governmental activities column.

#### VACATION BENEFIT POLICIES--PRIMARY GOVERNMENT

##### County General, District Court, Circuit Court, Sheriff Department and E-911 Office Employees

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits earned are credited to each employee on a bi-weekly basis. The county has established a formal policy regarding a maximum authorized accumulation of vacation hours per individual union agreement.

#### SICK LEAVE BENEFIT POLICIES--PRIMARY GOVERNMENT

##### County General, District Court, Circuit Court, Sheriff Department and E-911 Office Employees

The county's employment policies provide for sick leave benefits to be earned in varying amounts depending on the employee's hours worked.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE I--COMPENSATED ABSENCES (Continued)

##### Compensated Absences--Road Commission Employees

Vacation and sick leave is reported in the Road Commission General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

#### NOTE J--EMPLOYEES' RETIREMENT PLANS

##### Description of Plan and Plan Assets

Arenac County and the Arenac County Road Commission (component unit) are in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE J--EMPLOYEES' RETIREMENT PLANS (Continued)

##### Funding Policy--Primary Government

The obligation to contribute to and maintain the system for county employees was established by negotiation with the county's competitive bargaining units and personnel policy. For 2004, county employees were not required to contribute a percentage of their annual covered payroll, as Arenac County paid 100 percent of the required annual contributions to the pension plan. For 2004, the county had six different groups in the plan: General--Other, Sheriff, Steelworkers Local; District Court--Other, District Court Steelworkers and Elected County Officials with the pension contribution rates at 10.72 %, 11.21%, 9.47%, 0%, 7.77% and 18.02% of covered payroll, respectively.

##### Funding Policy--Road Commission

Road Commission employees are not required to contribute a percentage of their annual covered payroll. The contribution requirements of the Road Commission are established and may be amended by the retirement board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission. The Road Commission makes annual contributions to the pension plan equal to the amount required by State statutes.

##### Annual Pension Cost

For the calendar year ended December 31, 2004, the county's annual pension cost was \$322,586 and the Road Commission's annual pension cost was \$179,624 which was equal to the county and Road Commission's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002. The county employees made no contributions in accordance with the union and personnel agreements. The employer contribution rates have been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

# ARENAC COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE J--EMPLOYEES' RETIREMENT PLANS (Continued)

#### Three Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)			Percentage of APC Contributed		Net Pension Obligation	
	County		Road				
	Employer	Employee	Employer	County	Road	County	Road
2002	\$ 206,503	\$ 65,221	\$ 124,597	100%	100%	\$0	\$0
2003	251,697	69,289	169,217	100%	100%	\$0	\$0
2004	322,586		179,624	100%	100%	\$0	\$0

#### Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
2002						
General	\$ 4,294,146	\$ 6,265,452	\$ 1,971,306	69%	\$ 2,301,544	86%
Road	2,471,245	4,389,779	1,918,534	56%	909,258	211%
2003						
General	4,677,240	6,791,345	2,114,105	69%	2,389,365	88%
Road	2,525,987	4,626,398	2,100,411	55%	941,888	223%
2004						
General	5,021,181	7,182,619	2,161,438	70%	2,347,853	92%
Road	2,582,806	4,895,630	2,312,824	53%	988,386	234%

### NOTE K--RISK MANAGEMENT

#### Primary Government

The county is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

The county is self-insured for comprehensive liability; motor vehicle physical damage; and comprehensive, property and crime coverage through the Michigan Municipal Risk Management Authority (the Authority). All other types of risk of loss are covered through commercial insurance.

All liability claims up to \$75,000 per claim are paid from the net contribution account of the county held by the authority. In addition, after meeting certain deductible requirements, all vehicle claims up to \$15,000 per vehicle, up to \$30,000 per occurrence and property, and crime claims up to \$10,000 are also paid from the county's contribution account. The authority is responsible for any claims in excess of the above amounts up to a maximum limit of \$10,000,000.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--RISK MANAGEMENT (Continued)

The authority may make additional assessments to its member participants based upon the results of insurance pool operations.

Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

#### Road Commission (Component Unit)

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expenses incurred per occasion. All other risk is transferred to the pool.

#### NOTE L--CONTINGENT LIABILITIES

#### Primary Government

The county, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The county's insurance carrier estimates that the potential claims against the county, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the county.

#### Road Commission (Component Unit)

The Road Commission has been named as a defendant in various litigation involving pending lawsuits and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. Accordingly, no provision for any loss has been made in the financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursements to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

## ARENAC COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE M--DEFERRED COMPENSATION PLAN

##### Primary Government

Arenac County offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. Effective January 1, 1997, the assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of the Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the county's financial statements.

#### NOTE N--FEDERAL AWARDS--ROAD COMMISSION (COMPONENT UNIT)

The Road Commission received \$509,185 of Federal assistance that was passed through and administered by the Michigan Department of Transportation. The "pass-through" Federal assistance will be included in the State's single audit procedures and was not considered during the determination of single audit requirements of the Road Commission.

#### NOTE O--RESTATEMENT TO DELINQUENT TAX REVOLVING FUND NET ASSETS

Management determined that delinquent taxes for the years 1989 through 1996 were uncollectible. As a result, delinquent taxes receivable and net assets were reduced by \$164,840. The change to net assets is as follows:

Beginning Net Assets, as Previously Reported	\$2,989,666
Adjustment to Remove Uncollectible Delinquent Taxes	<u>(164,840)</u>
Beginning Net Assets--as Restated	<u>\$2,824,826</u>

**ARENAC COUNTY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**Year Ended December 31, 2005**

**EXHIBIT K**

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance--January 1, 2005	\$ -	\$ 49,723	\$ 99,731	\$ 50,008
Resources (Inflows)				
Property Taxes	2,498,891	2,515,647	2,473,352	(42,295)
Licenses and Permits	12,750	10,750	9,767	(983)
Federal Grants	42,000	51,079	60,654	9,575
State Grants	541,768	550,660	579,320	28,660
Contributions From Local Units of Government	100,330	78,230	80,470	2,240
Charges for Services	779,500	819,120	811,907	(7,213)
Fines and Forfeitures	20,000	20,000	19,831	(169)
Interest and Rentals	36,000	31,000	43,577	12,577
Other Revenue	241,226	300,926	295,882	(5,044)
Transfers From Other Funds	144,164	387,415	387,415	-
Amounts Available for Appropriation	4,416,629	4,814,550	4,861,906	47,356
Charges to Appropriations (Outflows)				
Current				
General Government	1,953,834	2,033,433	2,006,614	26,819
Public Safety	902,326	1,000,522	991,446	9,076
Public Works	23,417	23,417	23,417	-
Health and Welfare	297,874	316,806	315,122	1,684
Community and Economic Development	8,580	8,560	8,409	151
Other	932,500	1,024,039	996,756	27,283
Capital Outlay	-	65,382	65,381	1
Debt Service				
Principal	50,834	50,834	50,833	1
Interest	5,534	5,534	5,534	-
Transfers to Other Funds	241,730	282,124	282,124	-
Total Charges to Appropriations	4,416,629	4,810,651	4,745,636	65,015
Fund Balance--December 31, 2005	\$ -	\$ 3,899	\$ 116,270	\$ 112,371



**ARENAC COUNTY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**AMBULANCE--MAJOR SPECIAL REVENUE FUND**  
**Year Ended December 31, 2005**

**EXHIBIT L**

	<b><u>BUDGETED AMOUNTS</u></b>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 264,200	\$ 266,358	\$ 266,416	\$ 58
Total Revenues	264,200	266,358	266,416	58
Expenditures				
Current				
Health and Welfare	247,000	247,000	247,067	(67)
Total Expenditures	247,000	247,000	247,067	(67)
Excess of Revenues Over (Under) Expenditures	17,200	19,358	19,349	(9)
Fund Balance--January 1, 2005	262,000	262,000	262,415	415
Fund Balance--December 31, 2005	<u>\$ 279,200</u>	<u>\$ 281,358</u>	<u>\$ 281,764</u>	<u>\$ 406</u>

**ARENAC COUNTY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**FRIEND OF THE COURT--MAJOR SPECIAL REVENUE FUND**  
**Year Ended December 31, 2005**

**EXHIBIT M**

	<b>BUDGETED AMOUNTS</b>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal Grants	\$ 139,389	\$ 137,139	\$ 131,415	\$ (5,724)
State Grants	9,374	9,374	6,598	(2,776)
Charges for Services	16,000	16,000	16,808	808
Total Revenues	164,763	162,513	154,821	(7,692)
Expenditures				
Current				
General Government	172,015	171,829	172,270	(441)
Total Expenditures	172,015	171,829	172,270	(441)
Excess of Revenues Over (Under) Expenditures	(7,252)	(9,316)	(17,449)	(8,133)
Other Financing Sources (Uses)				
Operating Transfers In--Primary Government	10,730	40,011	39,924	(87)
Total Other Financing Sources (Uses)	10,730	40,011	39,924	(87)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	3,478	30,695	22,475	(8,220)
Fund Balance--January 1, 2005	-	-	93	93
Fund Balance--December 31, 2005	\$ 3,478	\$ 30,695	\$ 22,568	\$ (8,127)

**ARENAC COUNTY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**REMONUMENTATION--MAJOR SPECIAL REVENUE FUND**  
**Year Ended December 31, 2005**

**EXHIBIT N**

	<b><u>BUDGETED AMOUNTS</u></b>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants	\$ 30,000	\$ 66,000	\$ 78,634	\$ 12,634
Total Revenues	30,000	66,000	78,634	12,634
Expenditures				
Current				
General Government	38,000	74,000	75,941	(1,941)
Total Expenditures	38,000	74,000	75,941	(1,941)
Excess of Revenues Over (Under) Expenditures	(8,000)	(8,000)	2,693	10,693
Fund Balance--January 1, 2005	10,000	10,000	13,686	3,686
Fund Balance--December 31, 2005	\$ 2,000	\$ 2,000	\$ 16,379	\$ 14,379

**ARENAC COUNTY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
911 SERVICE--MAJOR SPECIAL REVENUE FUND  
Year Ended December 31, 2005**

**EXHIBIT O**

	<b>BUDGETED AMOUNTS</b>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 325,000	\$ 342,271	\$ 342,430	\$ 159
State Grants	84,676	84,676	97,712	13,036
Charges for Services	74,500	74,695	81,078	6,383
Interest and Rentals	-	-	1,728	1,728
Other Revenue	60	60	-	(60)
Total Revenues	484,236	501,702	522,948	21,246
Expenditures				
Current				
Public Safety	469,642	488,265	434,283	53,982
Capital Outlay	8,000	34,050	-	34,050
Total Expenditures	477,642	522,315	434,283	88,032
Excess of Revenues Over (Under) Expenditures	6,594	(20,613)	88,665	109,278
Other Financing Sources (Uses)				
Operating Transfers (Out)--Primary Government	(15,145)	(15,145)	(15,145)	-
Total Other Financing Sources (Uses)	(15,145)	(15,145)	(15,145)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(8,551)	(35,758)	73,520	109,278
Fund Balance--January 1, 2005	356,000	356,000	389,111	33,111
Fund Balance--December 31, 2005	\$ 347,449	\$ 320,242	\$ 462,631	\$ 142,389

**ARENAC COUNTY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**REVENUE SHARING RESERVE--MAJOR SPECIAL REVENUE FUND**  
**Year Ended December 31, 2005**

**EXHIBIT P**

	<b><u>BUDGETED AMOUNTS</u></b>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ -	\$ -	\$ 430,804	\$ 430,804
Total Revenues	-	-	430,804	430,804
Expenditures				
Current				
General Government	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	430,804	430,804
Fund Balance--January 1, 2005	-	594,399	594,399	-
Fund Balance--December 31, 2005	\$ -	\$ 594,399	\$ 1,025,203	\$ 430,804

**ARENAC COUNTY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
December 31, 2005**

**EXHIBIT Q**

	SPECIAL REVENUE FUNDS							
	Park	Homeland Security	Circuit Court Counseling	Building Department	Residence Exemption Administration	Register of Deeds Automation	MCOLES Deputy Training	Correction Officer Training
<b><u>ASSETS</u></b>								
Cash	\$ 11,453	\$ 101,177	\$ 27,786	\$ 43,218	\$ 1,368	\$ 17,455	\$ 7,255	\$ 6,692
Investments								
Receivables								
Taxes								
Accounts	33							
Notes								
Due From State of Michigan		60,873						
Due From Other Funds--Primary Government								
Total Assets	\$ 11,486	\$ 162,050	\$ 27,786	\$ 43,218	\$ 1,368	\$ 17,455	\$ 7,255	\$ 6,692
<b><u>LIABILITIES AND FUND BALANCES</u></b>								
Liabilities								
Accounts Payable	\$ 265	\$ 8,495		\$ 100				
Due to Other Funds--Primary Government								
Due to State of Michigan								
Accrued Wages Payable								
Advances From Other Funds								
Primary Government								
Deferred Revenue--Taxes								
Deferred Revenue--Other								
Total Liabilities	265	8,495	\$ -	100	\$ -	\$ -	\$ -	\$ -
Fund Balances								
Reserved for Capital Projects								
Reserved for Special Revenue Programs	9,898	52,378	27,786	43,118	1,368	17,455	7,255	6,692
Designated for Capital Projects	1,323							
Unreserved--Undesignated		101,177						
Total Fund Balances	11,221	153,555	27,786	43,118	1,368	17,455	7,255	6,692
Total Liabilities and Fund Balances	\$ 11,486	\$ 162,050	\$ 27,786	\$ 43,218	\$ 1,368	\$ 17,455	\$ 7,255	\$ 6,692

**ARENAC COUNTY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
December 31, 2005**

**EXHIBIT Q  
(CONTINUED)**

	<b>SPECIAL REVENUE FUNDS</b>							
	Drug Law Enforcement	Road Patrol Millage	Law Library	Senior Citizen Millage	Sheriff Department Donations	Strong Family Safe Children	Housing Commission	Family Court Juvenile
<b><u>ASSETS</u></b>								
Cash	\$ 4,141	\$ 8,474	\$ 1,668	\$ 3,659	\$ 46,874		\$ 15,966	\$ (3,271)
Investments								
Receivables								
Taxes		458,608		354,512				
Accounts								
Notes							1,096,094	
Due From State of Michigan							64,409	8,689
Due From Other Funds--Primary Government		1,600						
Total Assets	\$ 4,141	\$ 468,682	\$ 1,668	\$ 358,171	\$ 46,874	\$ -	\$ 1,176,469	\$ 5,418
<b><u>LIABILITIES AND FUND BALANCES</u></b>								
Liabilities								
Accounts Payable		\$ 1,664	\$ 277		\$ 2,124		\$ 14,735	
Due to Other Funds--Primary Government								
Due to State of Michigan								
Accrued Wages Payable		8,340						
Advances From Other Funds								
Primary Government								\$ 3,000
Deferred Revenue--Taxes		458,608		\$ 354,512				
Deferred Revenue--Other							1,096,094	
Total Liabilities	\$ -	468,612	277	354,512	2,124	\$ -	\$ 1,110,829	3,000
Fund Balances								
Reserved for Capital Projects								
Reserved for Special Revenue Programs	4,141	70	1,391	3,659	44,750		65,640	2,418
Designated for Capital Projects								
Unreserved--Undesignated								
Total Fund Balances	4,141	70	1,391	3,659	44,750	-	65,640	2,418
Total Liabilities and Fund Balances	\$ 4,141	\$ 468,682	\$ 1,668	\$ 358,171	\$ 46,874	\$ -	\$ 1,176,469	\$ 5,418

ARENAC COUNTY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
December 31, 2005

EXHIBIT Q  
(CONTINUED)

	SPECIAL REVENUE FUNDS					DEBT SERVICE FUND	CAPITAL PROJECTS FUND	
	Social Welfare	Child Care Probate	Soldiers & Sailors Relief	Veterans Trust	Animal Welfare	Building Authority Debt	Building Authority Construction	Total
<b><u>ASSETS</u></b>								
Cash	\$ 4,749	\$ 19,223	\$ 1,574	\$ (337)	\$ 3,534		\$ 7,515	\$ 330,173
Investments								-
Receivables								
Taxes								813,120
Accounts								33
Notes								1,096,094
Due From State of Michigan				379				134,350
Due From Other Funds--Primary Government								1,600
Total Assets	\$ 4,749	\$ 19,223	\$ 1,574	\$ 42	\$ 3,534	\$ -	\$ 7,515	\$ 2,375,370
<b><u>LIABILITIES AND FUND BALANCES</u></b>								
Liabilities								
Accounts Payable							\$ 2,217	\$ 29,877
Due to Other Funds--Primary Government								-
Due to State of Michigan		\$ 18,952						18,952
Accrued Wages Payable								8,340
Advances From Other Funds								
Primary Government								3,000
Deferred Revenue--Taxes								813,120
Deferred Revenue--Other								1,096,094
Total Liabilities	\$ -	18,952	\$ -	\$ -	\$ -	\$ -	2,217	1,969,383
Fund Balances								
Reserved for Capital Projects							5,298	5,298
Reserved for Special Revenue Programs	4,749	271	1,574	42	3,534			298,189
Designated for Capital Projects								1,323
Unreserved--Undesignated								101,177
Total Fund Balances	4,749	271	1,574	42	3,534	-	5,298	405,987
Total Liabilities and Fund Balances	\$ 4,749	\$ 19,223	\$ 1,574	\$ 42	\$ 3,534	\$ -	\$ 7,515	\$ 2,375,370



**ARENAC COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2005**

**EXHIBIT R**

	SPECIAL REVENUE FUNDS							
	Park	Homeland Security	Circuit Court Counseling	Building Department	Residence Exemption Administration	Register of Deeds Automation	MCOLES Deputy Training	Correction Officer Training
Revenues								
Taxes					\$ 1,368			
Licenses and Permits			\$ 2,445	\$139,251				
Federal Grants		\$182,833						
State Grants								
Charges for Services	\$ 43,326					\$ 28,890		\$ 5,807
Interest and Rents								
Fines and Forfeits								
Other				14				
Total Revenues	43,326	182,833	2,445	139,265	1,368	28,890	-	-
Expenditures								
Current								
General Government			800			2,738		
Public Safety		170,892		136,339			2,945	4,089
Health and Welfare								
Community and Economic Development								
Recreation and Cultural	54,045							
Capital Outlay								
Debt Service								
Principal	2,155							
Interest	798							
Total Expenditures	56,998	170,892	800	136,339	-	2,738	2,945	4,089
Excess of Revenues Over (Under) Expenditures	(13,672)	11,941	1,645	2,926	1,368	26,152	(2,945)	(4,089)
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government	12,464	100,000					10,200	
Operating Transfers (Out)--Primary Government						(9,000)		
Total Other Financing Sources (Uses)	12,464	100,000	-	-	-	(9,000)	10,200	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,208)	111,941	1,645	2,926	1,368	17,152	7,255	(4,089)
Fund Balance--January 1, 2005	12,429	41,614	26,141	40,192	-	303	-	4,974
Fund Balance--December 31, 2005	\$11,221	\$153,555	\$ 27,786	\$ 43,118	\$ 1,368	\$ 17,455	\$ 7,255	\$ 885

**ARENAC COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2005**

**EXHIBIT R**  
**(CONTINUED)**

	<b>SPECIAL REVENUE FUNDS</b>							
	Drug Law Enforcement	Road Patrol Millage	Law Library	Senior Citizen Millage	Sheriff Department Donations	Strong Family Safe Children	Housing Commission	Family Court Juvenile
Revenues								
Taxes		\$ 428,241		\$232,640				
Licenses and Permits								
Federal Grants						\$ 775	\$ 192,067	
State Grants							25,937	\$15,896
Charges for Services							48,769	
Interest and Rents					\$ 245			
Fines and Forfeits	\$ 2,664		\$ 2,500					
Other		13,033			82,277			
Total Revenues	2,664	441,274	2,500	232,640	82,522	775	266,773	15,896
Expenditures								
Current								
General Government			4,762					
Public Safety	1,319	454,076			38,048			
Health and Welfare				222,299				14,327
Community and Economic Development							283,379	
Recreation and Cultural								
Capital Outlay		25,691						
Debt Service								
Principal								
Interest								
Total Expenditures	1,319	479,767	4,762	222,299	38,048	-	283,379	14,327
Excess of Revenues Over (Under) Expenditures	1,345	(38,493)	(2,262)	10,341	44,474	775	(16,606)	1,569
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government		26,600	4,000					
Operating Transfers (Out)--Primary Government			(3,300)	(7,000)		(775)		
Total Other Financing Sources (Uses)	-	26,600	700	(7,000)	-	(775)	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,345	(11,893)	(1,562)	3,341	44,474	-	(16,606)	1,569
Fund Balance--January 1, 2005	2,796	11,963	2,953	318	276	-	82,246	849
Fund Balance--December 31, 2005	\$ 4,141	\$ 70	\$ 1,391	\$ 3,659	\$ 44,750	\$ -	\$ 65,640	\$ 2,418

**ARENAC COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2005**

**EXHIBIT R**  
**(CONTINUED)**

	<b>SPECIAL REVENUE FUNDS</b>					<b>DEBT SERVICE FUND</b>	<b>CAPITAL PROJECTS FUND</b>	
	Social Welfare	Child Care Probate	Soldiers & Sailors Relief	Veterans Trust	Animal Welfare	Building Authority Debt	Building Authority Construction	Total
Revenues								
Taxes								\$ 662,249
Licenses and Permits								141,696
Federal Grants								375,675
State Grants		\$ 50,137		\$ 2,458			\$ 78,052	172,480
Charges for Services								126,792
Interest and Rents								245
Fines and Forfeits								5,164
Other		15,725			\$ 710		3,046	114,805
Total Revenues	\$ -	65,862	\$ -	2,458	710	\$ -	81,098	1,599,106
Expenditures								
Current								
General Government								8,300
Public Safety								807,708
Health and Welfare	4,995	266,962	7,547	3,246	80			519,456
Community and Economic Development								283,379
Recreation and Cultural								54,045
Capital Outlay							146,066	171,757
Debt Service								
Principal						35,000		37,155
Interest						25,575		26,373
Total Expenditures	4,995	266,962	7,547	3,246	80	60,575	146,066	1,908,173
Excess of Revenues Over (Under) Expenditures	(4,995)	(201,100)	(7,547)	(788)	630	(60,575)	(64,968)	(309,067)
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government	4,000	201,000	8,000			60,575		426,839
Operating Transfers (Out)--Primary Government							(12,464)	(32,539)
Total Other Financing Sources (Uses)	4,000	201,000	8,000	-	-	60,575	(12,464)	394,300
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(995)	(100)	453	(788)	630	-	(77,432)	85,233
Fund Balance--January 1, 2005	5,744	371	1,121	830	2,904	-	82,730	320,754
Fund Balance--December 31, 2005	\$ 4,749	\$ 271	\$ 1,574	\$ 42	\$ 3,534	\$ -	\$ 5,298	\$ 405,987

**ARENAC COUNTY**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR ENTERPRISE FUNDS**  
**DECEMBER 31, 2005**

**EXHIBIT S**

	<b><u>BUSINESS-TYPE ACTIVITIES</u></b>		
	Tax Foreclosure	Jail Commissary	Total
<b><u>ASSETS</u></b>			
Current Assets			
Cash and Cash Equivalents	\$ 17,986	\$ 3,845	\$ 21,831
Total Assets	17,986	3,845	21,831
<b><u>NET ASSETS</u></b>			
Unrestricted	17,986	3,845	21,831
Total Net Assets	\$ 17,986	\$ 3,845	\$ 21,831

**ARENAC COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS--NON-MAJOR ENTERPRISE FUNDS**  
**For the Year Ended December 31, 2005**

**EXHIBIT T**

	<b><u>BUSINESS-TYPE ACTIVITIES</u></b>		
	Tax Foreclosure	Jail Commissary	Total
Operating Revenues			
Charges for Services	\$ 41,672	\$ 2,946	\$ 44,618
Total Operating Revenues	41,672	2,946	44,618
Operating Expenses			
Title Search Fees	19,951		19,951
Supplies and Materials		3,219	3,219
Other Foreclosure Costs	3,735		3,735
Total Operating Expenses	23,686	3,219	26,905
Operating Income (Loss)	17,986	(273)	17,713
Interfund Transfers			
Transfers (Out)		(4,109)	(4,109)
Change in Net Assets	17,986	(4,382)	13,604
Total Net Assets--January 1, 2005	-	8,227	8,227
Total Net Assets--December 31, 2005	\$ 17,986	\$ 3,845	\$ 21,831

**ARENAC COUNTY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NON-MAJOR ENTERPRISE FUNDS**  
**For the Year Ended December 31, 2005**

**EXHIBIT U**

	<b><u>BUSINESS-TYPE ACTIVITIES</u></b>		
	Tax Foreclosure	Jail Commissary	Total
Cash Flows From Operating Activities			
Charges for Services	\$ 41,672	\$ 2,946	\$ 44,618
Goods and Services Purchased	(23,686)	(3,221)	(26,907)
Net Cash Provided by Operating Activities	17,986	(275)	17,711
Cash Flows From Noncapital Financing Activities			
Transfers (Out)		(4,109)	(4,109)
Net Cash Flows From Noncapital Financing Activities	-	(4,109)	(4,109)
Net Increase (Decrease) in Cash and Cash Equivalents	17,986	(4,384)	13,602
Cash and Cash Equivalents--January 1, 2005	-	8,229	8,229
Cash and Cash Equivalents--December 31, 2005	<u>\$ 17,986</u>	<u>\$ 3,845</u>	<u>\$ 21,831</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 17,986	\$ (273)	\$ 17,713
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Changes in Assets and Liabilities			
Increase (Decrease) in Accounts Payable		(2)	(2)
Net Cash Provided by Operating Activities	<u>\$ 17,986</u>	<u>\$ (275)</u>	<u>\$ 17,711</u>

**ARENAC COUNTY  
COMBINING BALANCE SHEET  
TRUST AND AGENCY FUNDS  
December 31, 2005**

**EXHIBIT V**

	Trust and Agency	District Court Trust	Library (Penal Fines)	Total
<b><u>ASSETS</u></b>				
Cash	\$ 415,399	\$ 23,354	\$ 86,347	\$ 525,100
Total Assets	\$ 415,399	\$ 23,354	\$ 86,347	\$ 525,100
<b><u>LIABILITIES</u></b>				
Due to State of Michigan	\$ 39,555			\$ 39,555
Undistributed Tax Collections	286,610			286,610
Undistributed Penal Fines			\$ 86,347	86,347
Other Liabilities	89,234	\$ 23,354		112,588
Total Liabilities	\$ 415,399	\$ 23,354	\$ 86,347	\$ 525,100

**ARENAC COUNTY**  
**STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2005**

**EXHIBIT W**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Taxes</b>				
Current Property Taxes	\$ 2,170,000	\$ 2,192,620	\$ 2,149,936	\$ (42,684)
Current Property Taxes--Revenue Sharing Reserve	292,530	292,530	292,530	-
Delinquent Real Property Tax	-	1,286	1,286	-
Delinquent Personal Property Tax	9,000	1,850	2,327	477
Trailer Taxes	1,000	1,000	1,099	99
Swamp Lands Tax	26,361	26,361	26,174	(187)
<b>Total Taxes</b>	<b>2,498,891</b>	<b>2,515,647</b>	<b>2,473,352</b>	<b>(42,295)</b>
<b>Licenses and Permits</b>				
Clerk Licenses and Permits	3,500	3,500	3,033	(467)
Dog Licenses	8,500	6,500	6,119	(381)
Sheriff Licenses and Permits	750	750	615	(135)
<b>Total Licenses and Permits</b>	<b>12,750</b>	<b>10,750</b>	<b>9,767</b>	<b>(983)</b>
<b>Federal Grants</b>				
FEMA	7,000	5,300	5,357	57
Prosecuting Attorney--Cooperative Reimbursement Program	35,000	35,779	45,297	9,518
Law Enforcement Block Grant	-	10,000	10,000	-
<b>Total Federal Grants</b>	<b>42,000</b>	<b>51,079</b>	<b>60,654</b>	<b>9,575</b>
<b>State Grants</b>				
Liquor License Fees	6,100	6,202	6,257	55
Prosecuting Attorney--Cooperative Reimbursement Program	-	-	726	726
Probate Judges' Salary	139,100	139,919	147,606	7,687
Family Court State Juvenile Supplement	28,000	28,000	27,317	(683)
Circuit Judges' Supplement	45,724	45,724	45,724	-
District Judges' Supplement	45,724	45,724	45,724	-
District Court Caseflow Assistance	6,000	6,000	4,278	(1,722)
Court Funding	115,592	116,217	138,705	22,488
Judiciary Tech Improvement	-	1,725	1,725	-
Crime Victims' Assistance	26,000	33,250	27,730	(5,520)
Secondary Road Patrol Program	53,000	53,000	58,631	5,631
Marine Safety Program	1,000	-	-	-
Act 302 Training	2,500	-	-	-
Driver License Restitution	500	-	-	-
Convention Facility Liquor Tax	61,731	64,102	64,102	-
State Cigarette Tax	10,797	10,797	10,795	(2)
<b>Total State Grants</b>	<b>541,768</b>	<b>550,660</b>	<b>579,320</b>	<b>28,660</b>
<b>Contributions From Local Units of Government</b>				
School Liaison Contract	13,330	15,230	17,569	2,339
City Road Patrol Contract	87,000	63,000	62,901	(99)
<b>Total Contributions From Local Units of Government</b>	<b>100,330</b>	<b>78,230</b>	<b>80,470</b>	<b>2,240</b>
<b>Charges for Services</b>				
Circuit Court Costs	21,000	27,700	29,391	1,691
District Court Costs	400,000	343,500	334,296	(9,204)
District Court Civil Fees	21,000	28,000	26,563	(1,437)
Probate Court Services	25,000	20,000	21,496	1,496
Clerk Court Fees	9,000	8,500	8,555	55
Court Ordered Prosecution Fees	5,000	13,000	13,295	295



**ARENAC COUNTY**  
**STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2005**

**EXHIBIT W**  
**(CONTINUED)**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Charges for Services (Continued)				
Treasurer Services	2,000	11,000	11,048	48
Clerk Services	15,000	13,500	13,620	120
Register of Deeds Services	130,000	131,500	132,876	1,376
Sheriff Services	2,000	2,000	2,162	162
Paper Service Fees	4,500	5,115	5,541	426
Fees for Sheriff Services	4,500	1,000	1,015	15
Boat Inspections Fees	3,000	3,376	3,376	-
Fingerprint Services	1,500	1,700	1,635	(65)
ACL Screening	8,000	6,000	5,570	(430)
Record Copying	14,000	23,000	23,936	936
Out County Inmates Board	-	20,500	21,119	619
Inmate Housing Fees	9,000	12,000	11,772	(228)
Inmate Work Release	11,000	21,500	21,980	480
Social Security Incentive Jail	2,000	3,600	4,000	400
Jail Drug Test Charge	-	950	954	4
Jail Telephone Contract	-	12,000	12,000	-
Animal Control Services	26,000	37,000	27,464	(9,536)
Guardian Homemaker Services	25,000	30,200	35,974	5,774
Sale of County Properties	1,000	230	231	1
Equalization Department Services	39,000	40,425	40,363	(62)
Miscellaneous Services	1,000	1,824	1,675	(149)
Total Charges for Services	779,500	819,120	811,907	(109)
Fines and Forfeitures				
District Court Fines and Forfeitures	20,000	20,000	19,831	(169)
Total Fines and Forfeitures	20,000	20,000	19,831	(169)
Interest and Rents				
Interest Earned	30,000	25,000	37,577	12,577
Rents	6,000	6,000	6,000	-
Total Interest and Rents	36,000	31,000	43,577	12,577
Other Revenue				
Reimbursements				
Jury Compensation	500	3,885	3,885	-
Telephone	15,000	13,500	13,560	60
Circuit Court Wages and Fringe Benefits				
Alcona County	34,800	34,800	34,218	(582)
Iosco County	97,444	97,444	92,959	(4,485)
Oscoda County	32,481	32,481	32,252	(229)
Circuit Court Litigation--Other Counties	46,000	95,698	95,698	-
Insurance	12,000	18,517	18,517	-
Miscellaneous	3,001	4,601	4,793	192
Total Other Revenue	241,226	300,926	295,882	(5,044)
Total Revenues	4,272,465	4,377,412	4,374,760	(2,652)
Other Sources				
Operating Transfers In From (Primary Government)				
Law Library	-	3,300	3,300	-
Strong Family Safe Children	-	775	775	-
Delinquent Tax Revolving	144,164	383,340	383,340	-
Total Other Sources	144,164	387,415	387,415	-
Total Revenue and Other Sources	\$ 4,416,629	\$ 4,764,827	\$ 4,762,175	\$ (2,652)

**ARENAC COUNTY**  
**STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2005**

**EXHIBIT X**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
General Government				
Board of Commissioners	\$ 98,950	\$ 115,072	\$ 115,028	\$ 44
Circuit Court--Operating	218,608	220,148	220,061	87
Circuit Court--Shared 4 Way Costs	168,584	177,544	169,840	7,704
District Court	279,314	287,069	287,019	50
Friend of the Court	1,050	4,185	3,870	315
Public Guardian	52,890	57,000	56,993	7
Jury Board	3,850	4,333	4,332	1
Probate Court	174,717	175,467	174,581	886
Adult Probation	1,300	1,300	960	340
Elections	1,100	1,210	1,207	3
Clerk	129,766	133,116	133,021	95
Equalization Department	108,731	109,951	109,916	35
Victims Rights Advocate	22,316	22,566	18,779	3,787
Prosecuting Attorney	100,150	104,308	104,270	38
Prosecuting Attorney--Cooperative Reimbursement Program	50,539	53,039	52,366	673
Register of Deeds	60,898	61,938	61,641	297
Treasurer	97,988	101,013	99,789	1,224
Cooperative Extension Service	59,778	60,903	60,884	19
Building Authority	275	275	275	-
Courthouse and Grounds	169,999	189,749	182,975	6,774
Transportation	2,000	900	647	253
Drain Commissioner	41,557	42,532	41,568	964
Professional Services	26,000	28,045	28,045	-
Tax Allocation Board	250	250	183	67
Duplication and Postage	12,500	12,604	10,231	2,373
Microfilm	1,100	700	418	282
Telephone Lease	10,624	10,677	10,677	-
Computer Operations	59,000	57,539	57,038	501
Total General Government	1,953,834	2,033,433	2,006,614	26,819
Public Safety				
Sheriff	94,404	114,765	114,512	253
Secondary Road Patrol	40,232	45,632	43,592	2,040
City Car--Standish	61,845	54,945	52,108	2,837
School Liaison Officer	28,500	34,000	33,126	874
Emergency Management	14,625	16,495	16,453	42
Marine Safety Program	2,755	2,980	2,979	1
Jail	607,385	664,175	661,203	2,972
Animal Control	52,580	67,530	67,473	57
Total Public Safety	902,326	1,000,522	991,446	9,076
Public Works				
Drains-at-Large	23,417	23,417	23,417	-
Total Public Works	23,417	23,417	23,417	-

**ARENAC COUNTY**  
**STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2005**

**EXHIBIT X**  
**(CONTINUED)**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Health and Welfare				
District Health Department	126,238	127,843	127,839	4
Contagious Disease	400	600	564	36
Substance Abuse Agency	31,924	32,051	32,051	-
Medical Examiner	22,000	35,500	34,121	1,379
Community Mental Health Department	104,812	104,812	104,812	-
Veterans Burials	12,500	16,000	15,735	265
Total Health and Welfare	297,874	316,806	315,122	1,684
Community and Economic Development				
Planning Commission	1,280	860	769	91
Housing Commission	4,100	4,300	4,240	60
Economic Development	3,200	3,400	3,400	-
Total Community and Economic Development	8,580	8,560	8,409	151
Other				
Indirect Cost Study	10,000	13,129	13,128	1
Employee Fringe Benefits--Insurance	345,000	300,000	281,247	18,753
Retirement	212,000	247,000	242,775	4,225
Social Security--County Share	145,000	147,400	147,328	72
Tax Appeal Adjustments	6,000	8,840	8,793	47
Insurance and Bonds	202,500	294,867	291,238	3,629
Sick and Vacation Payoff	12,000	11,893	11,337	556
Miscellaneous	-	910	910	-
Total Other	932,500	1,024,039	996,756	27,283
Capital Outlay	-	65,382	65,381	1
Total Capital Outlay	-	65,382	65,381	1
Debt Service				
Principal	50,834	50,834	50,833	1
Interest	5,534	5,534	5,534	-
Total Debt Service	56,368	56,368	56,367	1
Total Expenditures	4,174,899	4,528,527	4,463,512	65,015
Other Uses				
Operating Transfers (Out)--Primary Government				
MCOLES Training	-	10,200	10,200	-
Friend of the Court	10,730	39,924	39,924	-
Law Library	4,000	4,000	4,000	-
Child Care Probate	200,000	201,000	201,000	-
Social Welfare	4,000	4,000	4,000	-
Soldiers and Sailors Relief	8,000	8,000	8,000	-
Total Operating Transfers (Out)--Primary Government	226,730	267,124	267,124	-
Operating Transfers (Out)--Component Unit				
Economic Development Corporation	15,000	15,000	15,000	-
Total Other Uses	241,730	282,124	282,124	-
Total Expenditures and Other Uses	\$ 4,416,629	\$ 4,810,651	\$ 4,745,636	\$ 65,015

**ARENAC COUNTY**  
**COMBINING STATEMENT OF NET ASSETS**  
**DRAIN COMMISSION--COMPONENT UNIT**  
**December 31, 2005**

**EXHIBIT Y**

<b>GOVERNMENTAL ACTIVITIES</b>				
	<b>DEBT SERVICE</b>	<b>CAPITAL PROJECTS</b>		
	Twining Village Sewer	Drain	Drain Revolving	Total
<b><u>ASSETS</u></b>				
Current Assets				
Cash		\$ 249,759	\$ 20,544	\$ 270,303
Total Current Assets	\$ -	249,759	20,544	270,303
Noncurrent Assets				
Special Assessments Receivable				
Due Within One Year		141,567		141,567
Due in More Than One Year		203,327		203,327
Due From Local Units of Government				
Due Within One Year	17,000			17,000
Due in More Than One Year	320,000			320,000
Capital Assets (Net)				
Assets Being Depreciated		734,894		734,894
Total Noncurrent Assets	337,000	1,079,788	-	1,416,788
Total Assets	\$ 337,000	\$ 1,329,547	\$ 20,544	\$ 1,687,091
<b><u>LIABILITIES</u></b>				
Noncurrent Liabilities				
Long-Term Advances From				
Primary Government--General Fund			\$ 47,000	\$ 47,000
Bonds Payable				
Due Within One Year	\$ 17,000			17,000
Due in More Than One Year	320,000			320,000
Notes Payable				
Due Within One Year		\$ 30,000		30,000
Due in More Than One Year		180,000		180,000
Total Noncurrent Liabilities	337,000	210,000	47,000	594,000
Total Liabilities	337,000	210,000	47,000	594,000
<b><u>NET ASSETS</u></b>				
Invested in Capital Assets--Net of				
Related Debt		524,894		524,894
Restricted for Capital Projects		594,653	(26,456)	568,197
Total Net Assets	\$ -	\$ 1,119,547	\$ (26,456)	\$ 1,093,091

ARENAC COUNTY  
COMBINING BALANCE SHEET  
DRAIN COMMISSION--COMPONENT UNIT  
December 31, 2005

EXHIBIT Z

GOVERNMENTAL FUNDS			
	DEBT SERVICE FUND	CAPITAL PROJECT FUNDS	
	Twining Village Sewer	Drain	Drain Revolving
			Total
<b><u>ASSETS</u></b>			
Cash		\$ 249,759	\$ 20,544
Special Assessments Receivable		344,894	
Due From Village	\$ 337,000		
Due From Other Funds--Component Units			26,456
Total Assets	\$ 337,000	\$ 594,653	\$ 47,000
			\$ 978,653
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
Liabilities			
Due to Other Funds--Component Units		\$ 26,456	\$ 26,456
Advances From Other Funds--Primary Government			\$ 47,000
Deferred Revenue	\$ 337,000	344,894	
Total Liabilities	337,000	371,350	47,000
Fund Balance			
Designated for Capital Projects		223,303	
Total Fund Balance	-	223,303	-
Total Liabilities and Fund Balance	\$ 337,000	\$ 594,653	\$ 47,000
			\$ 978,653
Fund Balance--Total Governmental Funds			\$ 223,303
Amounts reported for governmental activities in the Statement of Net Assets are different because			
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.			734,894
The long-term special assessments are not considered "available" in governmental funds, but are considered earned and are recognized as revenue in the Statement of Activities			344,894
Certain receivables, such as due from local units of government, are not due in the current period and, therefore, are not reported in the funds			337,000
Certain liabilities, such as bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds			(547,000)
Total Net Assets			\$ 1,093,091

**ARENAC COUNTY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**DRAIN COMMISSION--COMPONENT UNIT**  
**For the Year Ended December 31, 2005**

**EXHIBIT AA**

	PROGRAM REVENUES				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
<u>Governmental Activities</u>					
Twining Village Sewer					
Interest on Related Debt	\$ 20,700		\$ 20,700		-
Total Twining Village Sewer	20,700	\$ -	20,700	\$ -	\$ -
Drain					
Public Works	82,977	99,316	842		17,181
Interest on Related Debt	7,749				(7,749)
Total Drain	90,726	99,316	842	-	9,432
Drain Revolving					
Public Works					
Total Drain Revolving	\$ -	\$ -	\$ -	\$ -	-
Change in Net Assets					\$ 9,432
Net Assets--Beginning of Year					<u>1,049,502</u>
Restatement to Net Assets					<u>34,157</u>
Restated Net Assets--Beginning of Year					<u>1,083,659</u>
Net Assets--End of Year					<u>\$ 1,093,091</u>

**ARENAC COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES--DRAIN COMMISSION**  
**COMPONENT UNIT**  
**For the Year Ended December 31, 2005**

**EXHIBIT AB**

	<b>GOVERNMENTAL FUNDS</b>			
	<b>DEBT SERVICE</b>	<b>CAPITAL PROJECTS</b>		
	Twining Village Sewer	Drain	Drain Revolving	Total
Revenues				
Contributions From Local Units	\$ 36,700			\$ 36,700
Interest and Rentals		\$ 842		842
Special Assessments		111,816		111,816
Total Revenues	36,700	112,658	\$ -	149,358
Expenditures				
Public Works		191,468		191,468
Debt Service				
Principal	16,000			16,000
Interest and Fiscal Fees	20,700	7,749		28,449
Total Expenditures	36,700	199,217	-	235,917
Excess of Revenues Over (Under) Expenditures	-	(86,559)	-	(86,559)
Fund Balance--January 1, 2005	-	309,862	-	309,862
Fund Balance--December 31, 2005	\$ -	\$ 223,303	\$ -	\$ 223,303

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances--Total Governmental Funds	\$ (86,559)
Village contributions related to principal payments are recorded as revenues in governmental funds, but have already been recorded as revenue in the year the debt was incurred.	(16,000)
Special Assessment Receivables are not recorded as revenue in governmental funds, but are recorded as revenue in the Statement of Activities.	99,316
Special Assessment revenue recorded in governmental funds for prior years are not recognized as revenue in the Statement of Activities.	(111,816)
Principal payments are recorded as expenditures in governmental funds, but principal payments reduce long-term liabilities in the Statement of Net Assets.	16,000
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	158,010
Depreciation is not recorded as an expense in governmental funds, but is recorded as an expense in the Statement of Activities.	(49,519)
Change in Net Assets of Governmental Activities	\$ 9,432

**ARENAC COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1)(2)**  
**For the Year Ended December 31, 2005**

**SCHEDULE 1**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
<b>PRIMARY GOVERNMENT</b>				
Department of Agriculture--Rural Development				
Passed Through Michigan State Housing Development Authority				
Rural Preservation Grant	10.433	(3)	\$ 28,706	\$ 28,706
<b>Total Department of Agriculture</b>			<u>28,706</u>	<u>28,706</u>
Department of Housing and Urban Development				
Passed Through Michigan State Housing Development Authority				
Program Income	14.228	(3)	71,014	55,160
Community Development Block Grant/State's Program	14.228	MSC-2003-0322-HOA	92,347	92,347
<b>Total Department of Housing and Urban Development</b>			<u>163,361</u>	<u>147,507</u>
Department of Justice				
Passed Through Michigan Department of Community Health				
Office of Drug Control Policy				
Local Law Enforcement Block Grant	16.592	2004-LB-BX-0863	10,000	10,000
<b>Total Department of Justice</b>			<u>10,000</u>	<u>10,000</u>
Department of Health and Human Services				
Passed Through Michigan Department of Human Services				
Family Preservation and Support Services (Title IV-B Subpart 2)				
Strong Families Safe Children	93.556	SFSC-02-06003-2	775	775
ADC Incentive Program	93.560	(3)	24,239	(4)
Child Support Enforcement (Title IV-D)				
Prosecuting Attorney	93.563	CS/PA-05-06002	34,409	34,409
Prosecuting Attorney	93.563	CS/PA-06-06002	10,888	10,888
Friend of the Court	93.563	CS/FOC-05-06001	82,639	82,639
Friend of the Court	93.563	CS/FOC-06-06001	24,537	24,537
<b>Total Department of Health and Human Services</b>			<u>177,487</u>	<u>153,248</u>
US Department of Homeland Security				
Passed Through Michigan Department of State Police				
2003 Homeland Security Grant Program-Part II Solution Area Planner Grant	97.004	(3)	19,231	19,231
2003 Homeland Security Grant Program-Part II Training Grant	97.004	(3)	9,799	9,799
2004 Homeland Security Grant Program-CBRNE Planning and Equipment	97.004	(3)	117,567	117,567
2004 Law Enforcement Terrorism Prevention Program-CBRNE Equipment	97.004	(3)	36,039	36,039
Emergency Management Performance Grant	97.067	(3)	5,554	5,554
<b>Total US Department of Homeland Security</b>			<u>188,190</u>	<u>188,190</u>
<b>TOTAL REPORTING ENTITY</b>			<u>\$ 567,744</u>	<u>\$ 527,651</u>

See Notes to Schedule of Expenditures of Federal Awards.



ARENAC COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2005

- (1) The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of Arenac County, except for the Arenac County Road Commission which was audited by other auditors. Federal awards received directly from Federal agencies, as well as Federal awards passed through other government agencies, are included on the schedule.
- (2) The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note A of the county's basic financial statements.
- (3) Pass-through grantor's number was not available.
- (4) Revenue from this grant is based on collection effort only, with no directly related expenditures.

Arenac County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2005

**Section I--Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	_____ <u>X</u> _____	No
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Reportable condition(s) identified that are not considered to be material weaknesses?	_____ <u>X</u> _____	Yes	_____	No
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Noncompliance material to financial statements noted?	_____	Yes	_____ <u>X</u> _____	No
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Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	_____	Yes	_____ <u>X</u> _____	No
-------------------------------------	-------	-----	----------------------	----

• Reportable condition(s) identified that are not considered to be material weaknesses?	_____	Yes	_____ <u>X</u> _____	None reported
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Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	_____ <u>X</u> _____	No
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Arenac County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2005

**Section I--Summary of Auditor's Results  
(Continued)**

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.563	Cooperative Reimbursement Program
97.004	State Domestic Preparedness Equipment Grant Program

Dollar threshold used to distinguish  
between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

           Yes          X     No

**Section II--Financial Statement Findings**

**REPORTABLE CONDITIONS**

The following is a detailed description and recommendation of the reportable conditions involving the internal controls.

Board of Commissioners--Capital Assets

*Finding 2005-01*

*Condition:* The county does not maintain adequate internal controls for capital assets. A capital asset subsidiary record is not maintained in accordance with generally accepted accounting principles.

*Criteria:* It is the responsibility of the county to update the capital assets listing for additions and deletions. For the governmental funds, assets purchased during the year are recorded as capital outlay and should equal the additions to the capital asset records. For the enterprise funds, assets purchased during the year should be recorded as increases in the capital asset account and not as an expense. Depreciation expense is also to be recorded for the enterprise funds. Disposals should equal the reductions to the capital asset records in both governmental and business type funds.

*Recommendation:* We recommend that the county develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the county should be taken and included in the permanent records of the county and updated annually.

Arenac County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2005

**Section II--Financial Statement Findings  
(Continued)**

REPORTABLE CONDITIONS (Continued)

- 2) All assets owned by the county should be permanently labeled in some manner such as permanent individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the county to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the county should keep records on all assets owned by the county which includes the following information:
 

<ul style="list-style-type: none"> <li>-Date of Acquisition</li> <li>-Tag Number</li> <li>-Description of Property</li> <li>-Original Cost of Asset</li> <li>-Location of Asset (including department)</li> </ul>	<ul style="list-style-type: none"> <li>-Date of Disposal (when sold or scrapped)</li> <li>-Salvage Value (if any)</li> <li>-Life of Asset</li> <li>-Depreciation Method of the Asset</li> <li>-Accumulated Depreciation of the Asset</li> <li>-Net Book Value of the Asset</li> </ul>
---	---
- 4) Capital assets that meet the county's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets, it will also provide an excellent record for insurance and replacement purposes as well. GASB Statement No. 34 requires capital assets to be included in the financial statements of the county.

*Management's Response--Corrective Action Plan:* Contact person is Pauline Hall, Arenac County Commissioner, 120 North Grove Street, P.O. Box 637, Standish, Michigan 48658. Telephone (989) 846-6188.

During 2006, the task of maintaining a complete set of capital asset records will be assigned to a county employee. Software to link this data to our general ledger will also be purchased.

Arenac County  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2005

**Section II--Financial Statement Findings  
(Continued)**

REPORTABLE CONDITIONS (Continued)

Investment Policy

*Finding 2005-02*

*Condition:* The county does not have an updated investment policy that contains credit risk assessments and disclosures for investments as required by GASB No. 40.

*Criteria:* For years beginning after June 30, 2004, GASB Statement No. 40 requires governmental units to have an investment policy that contains investment risk assessments and additional disclosure requirements for investments.

*Recommendation:* We recommend that the county treasurer's office formulate an updated investment policy that includes the requirements of GASB No. 40; and that the board of commissioners adopt the new policy.

*Management's Response--Corrective Action Plan:* Contact person is Dennis Stawowy, Arenac County Treasurer, 120 North Grove Street, P.O. Box 637, Standish, Michigan 48658. Telephone (989) 846-4106.

During 2006, the county treasurer will draft a new investment policy that is GASB No. 40 compliant and submit it to the county board for approval.

**Section III--Federal Award Findings and Questioned Costs**

None



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

June 8, 2006

Arenac County Board of Commissioners  
120 North Grove Street  
Standish, Michigan 48658

RE: Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arenac County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise Arenac County's basic financial statements and have issued our report thereon dated June 8, 2006. We did not audit the financial statements of the Arenac County Road Commission (component unit--governmental fund type) which statements reflect total assets of \$6,035,764 as of December 31, 2005, and total revenues of \$4,300,878. These financial statements were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Arenac County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Arenac County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2005-01 and 2005-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether Arenac County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the board of commissioners, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



JENNIFER M. GRANHOLM  
GOVERNOR

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120 North Grove Street  
Standish, Michigan 48658

RE: Report on Compliance with Requirements Applicable to Each Major  
Program and on Internal Control Over Compliance in Accordance With  
OMB Circular A-133

Dear Board Members:

Compliance--We have audited the compliance of Arenac County with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended December 31, 2005. Arenac County's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Arenac County's management. Our responsibility is to express an opinion on Arenac County's compliance based on our audit.

Arenac County's financial statements include the operations of the Arenac County Road Commission (special revenue component unit), which received \$509,185 in Federal Awards and is not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2005. The Road Commission was audited by other auditors and it was determined that the Road Commission received and expended \$509,185 of Federal assistance that was passed through and administered by the Michigan Department of Transportation. The "pass-through" Federal assistance will be included in the State's single audit procedures and was not considered during the determination of single audit requirements of the Road Commission. Our audit, described below, did not include the operations of the Arenac County Road Commission (special revenue component unit) because a single audit was not required in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Arenac County's



compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Arenac County's compliance with those requirements.

In our opinion, Arenac County complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2005.

Internal Control Over Compliance--The management of Arenac County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Arenac County's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the board of commissioners, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



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